2023 HOUSE FINANCE AND TAXATION

HB 1158

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
1/11/2023

A bill relating to the imposition of a flat income tax rate of one and one half percent for individuals, estates, and trusts.

Chairman Headland opened the hearing at 9:03am.

Members present: Chairman Headland, Vice Chairman Hagert, Representative Anderson, Representative Bosch, Representative Dockter, Representative Finley-DeVille, Representative Fisher, Representative Grueneich, Representative Hatlestad, Representative Motschenbacher, Representative Olson, Representative Steiner, Representative Toman, and Representative Ista. Members absent: none.

Discussion Topics:
- Flat income tax rate
- Individual income tax relief

Chairman Headland introduced the bill.

Doug Burgum, Governor of North Dakota, testified in support (#12919).

Senator Kannianen spoke in support.

Senator Meyer spoke in support.

Bette Grande, President and CEO of the Roughrider Policy Center, testified in support (#12904).

Grover Norquist, President for Americans for Tax Reform, testified in support (#12911 and 12915).

Timothy Vermeer, Senior Policy Analyst with Tax Foundation, neutral testimony (#12943).

Dustin Gawrylow, Managing Director for the North Dakota Watchdog Network, testified in support (#12857 and 12858).

Arik Spencer, President of Greater North Dakota Chamber, spoke in support.

Don Larson, Odney, Inc. representing National Federation of Independent Business, spoke in support.

Blair Thorson, on behalf of Jeff Stark with International Union of Painters and Allied Trades, testified in support (#12853).

Representative Olson, testified in opposition (#12850).

Chairman Headland closed the hearing at 10:36am.

Meeting adjourned at 11:03am.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
2/15/2023

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 10:40AM.

Members present: Chairman Headland, Vice Chairman Hagert, Representative Anderson, Representative Bosch, Representative Dockter, Representative Fisher, Representative Grueneich, Representative Hatlestad, Representative Motschenbacher, Representative Olson, Representative Steiner, Representative Toman, Representative Finley-DeVille, and Representative Ista. No members absent.

Discussion Topics:
- Committee vote

Vice Chairman Hagert moved a Do Pass.

Representative Bosch seconded the motion.

Roll call vote:

Representatives	Vote
Representative Craig Headland	Y
Representative Jared Hagert	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Lisa Finley-DeVille	Y
Representative Jay Fisher	Y
Representative Jim Grueneich	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	N
Representative Mike Motschenbacher	Y
Representative Jeremy Olson	Y
Representative Vicky Steiner	Y
Representative Nathan Toman	Y

Motion carried 13-1-0

Vice Chairman Hagert is the bill carrier.

Chairman Headland adjourned at 10:43AM.

Mary Brucker, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1158: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO PASS** (13 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1158 was placed on the Eleventh order on the calendar.

2023 SENATE FINANCE AND TAXATION

HB 1158

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/13/2023

Relating to the imposition of a flat income tax rate of one and one half percent for individuals, estates, and trusts.

9:00 AM Chairman Kannianen opened hearing.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Income tax
- North Dakota resident
- Fiscal note

9:02 AM Representative Headland introduced HB 1158. No written testimony.

9:13 AM Governor Burgum, ND Governor, testified in favor #24128, #24129

9:24 AM Bette Grande, CEO for Rough Rider Policy Center, testified in favor. #24292

9:28 AM Doug Kellogg, State Project Director for Americas Tax Reform, testified verbally in favor.

9:32 AM Arik Spencer, President and CEO for Greater ND Chamber, testified verbally in favor.

9:32 AM Dustin Gawrylow, North Dakota Watchdog Network, testified in favor. #24123 #24124

9:38 AM Don Larson, National Federation of Independent Business (NFIB), verbally testified in favor.

9:40 AM Mike Rud, ND Petroleum Marketers Association and ND Propane Gas Association, verbally testified in favor.

9:40 AM Blair Thorson on behalf of Jeff Stark, Government Relations and Regulatory Affairs, verbally testified in favor.

9:42 AM Pete Hanebutt ND Farm Bureau, verbally testified in favor.

9:43 AM Cale Dunwoody, Director of Public Policy for the Fargo Moorhead West Fargo, testified in favor. #24042

9:43 AM Timothy Vermeer, Senior Policy Analyst with the Tax Foundation, testified in favor. #24156

9:57 AM Matt Peyerl, ND Office of State Tax Commission, answered questions.

Additional written testimony:

Jeff Stark # 24011

Kevin Herrmann #24026

10:05 AM Chairman Kannianen adjourned the hearing.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/15/2023

Relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts, relating to adjustments to state aid payments.

3:08 PM Chairman Kannianen opened the meeting.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Flat Tax
- Mill levy
- Income Tax
- Fiscal note

4:08 PM Matt Peyerl, Office of State Tax Commission, answered questions on #25370, Neutral.

4:25 PM Chairman Kannianen closed the meeting.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/20/2023

Relating to the imposition of a flat income tax rate of one and one half percent for individuals, estates, and trusts.

3:29 PM Chairman Kannianen opens hearing.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Flat tax
- Mill levy
- Amendment

9:15 AM Matt Peyerl, ND Tax Commission, provided additional information neutral. #25882

9:27 AM Matt Peyerl, ND Tax Commission, answered questions verbally neutral.

4:01 PM Chairman Kannianen adjourns hearing.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/20/2023

Relating to the imposition of a flat income tax rate of one and one half percent for individuals, estates, and trusts.

3:29 PM Chairman Kannianen opens hearing.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Proposed amendments
- Committee discussion
- Married couples
- Taxable income

3:29 PM Committee Discussed Committee proposed amendments. #25988 #25987 #25989

3:53 PM Matt Peyerl, ND Tax Commission, answered questions.

4:01 PM Chairman Kannianen adjourns hearing.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/21/2023

Relating to the imposition of a flat income tax rate of one and one half percent for individuals, estates, and trusts.

10:27 AM Chairman Kannianen opens hearing.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Amendments
- Fiscal note

Chairman Kannianen discussed proposed amendment. #25987

10:41 AM Chairman Kannianen adjourns hearing.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1158
3/21/2023

Relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts, relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

2:58 PM Chairman Kannianen opened the meeting.

Senators present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:
- Property Tax
- School Funding Formula
- Property Tax Relief

3:00 PM Linda Svihovec, ND Association of Counties provided additional information. #26176

3:14 PM Adam Tescher School Finance Department, answered questions.

3:20 PM Senator Weber moved to adopt Amendment. LC 23.0351.02009 #26182

3:21 PM Senator Rummel seconded.

Roll call vote

Senators	Vote
Senator Jordan Kannianen	Y
Senator Mark F. Weber	Y
Senator Jeffery J. Magrum	Y
Senator Dale Patten	Y
Senator Merrill Piepkorn	Y
Senator Dean Rummel	Y

Passed 6-0-0

3:23 PM Senator Weber moved Do Pass as Amended and Re-Refer to Appropriations.

3:23 PM Senator Patten seconded.

Roll call vote

Senators	Vote
Senator Jordan Kannianen	Y
Senator Mark F. Weber	Y
Senator Jeffery J. Magrum	Y
Senator Dale Patten	Y
Senator Merrill Piepkorn	Y
Senator Dean Rummel	Y

Passed 6-0-0

Chairman Kannianen will carry the bill.

3:24 PM Chairman Kannianen closed the meeting.

Nathan Liesen, Committee Clerk

Prepared by the Legislative Council staff for
the Senate Finance and Taxation Committee
March 21, 2023

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PROPOSED AMENDMENTS TO HOUSE BILL NO. 1158

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact subsection 3 of section 15.1-27-02, sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, subdivision c of subsection 1 of section 57-20-07.1, and subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; to repeal sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code, relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 3 of section 15.1-27-02 of the North Dakota Century Code is amended and reenacted as follows:

3. On or before December fifteenth, each school district shall file with the superintendent of public instruction the taxable valuation and mill levy certifications, which must be separated by property classification. If a district fails to file the taxable valuation and mill levy certifications by the required date, the superintendent of public instruction may not forward to the district any state aid payments to which the district is entitled, until the taxable valuation and mill levy certifications are filed.

SECTION 2. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. ~~(Effective through June 30, 2025)~~

~~1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed~~

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~~by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2)~~ ~~Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3)~~ ~~Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the 2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4)~~ ~~Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5)~~ ~~Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6)~~ ~~Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d.~~ ~~An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1)~~ ~~Mobile home tax revenue;~~

~~(2)~~ ~~Telecommunications tax revenue; and~~

~~(3)~~ ~~Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e.~~ ~~Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became~~

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~~an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2.~~ ~~a.~~ ~~The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.~~

~~b.~~ ~~For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c.~~ ~~Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3.~~ ~~a.~~ ~~For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by~~

~~fifteen percent and then the difference added to the amount determined in paragraph 1.~~

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~~b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1) For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3) For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of~~

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~~subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a. Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1) Tuition revenue shall be adjusted as follows:~~

~~(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school~~

~~district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and~~

~~(b)~~ ~~The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2)~~ ~~After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5.~~ ~~The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6.~~ ~~On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7.~~ ~~For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a.~~ ~~The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b.~~ ~~The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c.~~ ~~The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~**Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)**~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

   a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

   b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

   c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

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(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

(a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

(b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

(c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~, until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~ and~~

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d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.

b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

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3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied~~

~~by the district's weighted student units from the previous school year.~~

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~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

a. Subtract an amount equal to ~~sixty~~the sum of:

(1) Forty mills multiplied by the taxable valuation of residential, agricultural, and commercial property in the school district. For

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purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter; and

(2) Sixty mills multiplied by the taxable valuation of centrally assessed property in the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

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7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

   a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

   b. The total number of mills levied in the previous calendar year by each school district for all purposes, separated by property classification; and

   c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes, separated by property classification.

SECTION 3. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall ~~utilize an amount equal to sixty~~deduct the sum of the following:

1. Forty mills times twenty percent of the state average valuation of residential, agricultural, and commercial property per student multiplied by the number of weighted student units in the district; and

2. Sixty mills times twenty percent of the state average valuation of centrally assessed property per student multiplied by the number of weighted student units in the district.

SECTION 4. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~fifty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum

reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

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(2) If the person's income is in excess of ~~twenty-two~~fifty thousand dollars and not in excess of ~~twenty-six~~seventy-five thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

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~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

i. A person who is eligible for an exemption under this subsection is eligible to receive a full or partial exemption under this subsection based on the date of submission of the verified statement of facts required under subdivision f. If the person submits the verified statement of facts:

(1) By February first of the current taxable year, the person is eligible for the full exemption under this subsection.

(2) After February first of the current taxable year and no later than November fifth of the current taxable year, the person is eligible to receive a pro rata share of the exemption under this subsection. To claim a pro rata share of the exemption under this subsection, the person shall submit the verified statement of facts by the fifth day of the month preceding the first full month of the prorated exemption. The tax commissioner shall calculate the pro rata share of the exemption based on the number of months remaining in the taxable year, beginning the month after the verified statement of facts is timely submitted.

SECTION 5. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 6. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.

2. For purposes of this section:

   a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.

   b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.

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c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.

d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.

e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

   a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

   b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

   c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

   ~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:

 a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.

 b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 7. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.

 a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.

 b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

 c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

 d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

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e. For taxable years beginning after 2012:

(1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~fifty mills on the dollar of the taxable valuation of residential, agricultural, and commercial property in the school district and seventy mills on the dollar of taxable valuation of centrally assessed property in the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 8. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses.~~

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~~The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3.~~ ~~The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4.~~ ~~The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5.~~ ~~The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6.~~ ~~Nothing in this section limits the board of a school district from levying:~~

~~a.~~ ~~Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b.~~ ~~Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~School district levies. (Effective for taxable years beginning after December 31, 2024)~~

1. a. The board of a school district may levy a tax ~~not exceeding~~for the school district's local contribution to the costs of education which may not exceed the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~:

(1) Forty mills on the taxable valuation of residential, agricultural, and commercial property in the district~~, for any purpose related to the provision of educational services~~. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter.

(2) Sixty mills on the taxable valuation of centrally assessed property in the district.

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b. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 9. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. ~~Provide~~For tax statements to be mailed to an owner of a residential, agricultural, or commercial parcel of land, provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable

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years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus the ~~number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Seventy mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~forty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 10. AMENDMENT. Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.

a. Single, other than head of household or surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$37,450~~	~~1.10%~~	~~$0~~
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

$0	$44,725	$0.00 + 0.00%	$0
$44,725	$108,325	$0.00 + 2.04%	$44,725
$108,325	$225,975	$1,297.44 + 2.27%	$108,325
$225,975	$491,350	$3,968.10 + 2.64%	$225,975
$491,350		$10,974.00 + 2.90%	$491,350

b. Married filing jointly and surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~
$0	$74,750	$0 + 0.00%	$0
$74,750	$180,550	$0.00 + 2.04%	$74,750
$180,550	$275,100	$2,158.32 + 2.27%	$180,550
$275,100	$491,350	$4,304.61 + 2.64%	$275,100
$491,350		$10,013.61 + 2.90%	$491,350

c. Married filing separately.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~
$0	$37,375	$0 + 0.00%	$0
$37,375	$90,275	$0.00 + 2.04%	$37,375
$90,275	$137,550	$1,079.16 + 2.27%	$90,275
$137,550	$245,675	$2,152.30 + 2.64%	$137,550
$245,675		$5,006.80 + 2.90%	$245,675

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d. Head of household.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~
$0	$59,950	$0 + 0.00%	$0
$59,950	$154,750	$0.00 + 2.04%	$59,950
$154,750	$250,550	$1,933.92 + 2.27%	$154,750
$250,550	$491,350	$4,108.58 + 2.64%	$250,550
$491,350		$10,465.70 + 2.90%	$491,350

e. Estates and trusts.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$2,500~~	~~1.10%~~	~~$0~~
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04%~~	~~$2,500~~
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27%~~	~~$5,900~~
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~
$0	$3,000	$0 + 0.00%	$0
$3,000	$7,050	$0.00 + 2.04%	$3,000
$7,050	$10,750	$82.62 + 2.27%	$7,050
$10,750	$14,650	$166.61 + 2.64%	$10,750
$14,650		$269.57 + 2.90%	$14,650

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

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(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 11. REPEAL. Section 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 12. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. 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.

SECTION 13. EFFECTIVE DATE. Sections 4, 6, 7, 8, and 10 of this Act are effective for taxable years beginning after December 31, 2022."

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1158: Finance and Taxation Committee (Sen. Kannianen, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1158 was placed on the Sixth order on the calendar. This bill affects workforce development.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact subsection 3 of section 15.1-27-02, sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, subdivision c of subsection 1 of section 57-20-07.1, and subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; to repeal sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code, relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 3 of section 15.1-27-02 of the North Dakota Century Code is amended and reenacted as follows:

3. On or before December fifteenth, each school district shall file with the superintendent of public instruction the taxable valuation and mill levy certifications, which must be separated by property classification. If a district fails to file the taxable valuation and mill levy certifications by the required date, the superintendent of public instruction may not forward to the district any state aid payments to which the district is entitled, until the taxable valuation and mill levy certifications are filed.

SECTION 2. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. ~~**(Effective through June 30, 2025)**~~

~~1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting~~

~~and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the 2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Mobile home tax revenue;~~

~~(2) Telecommunications tax revenue; and~~

~~(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted~~

~~student units to determine the district's baseline funding per weighted student unit.~~

~~b.~~ ~~For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c.~~ ~~Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3.~~ ~~a.~~ ~~For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.~~

~~b.~~ ~~For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline~~

~~weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c.~~ ~~The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1)~~ ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2)~~ ~~For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ ~~For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4)~~ ~~For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5)~~ ~~For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a. Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1) Tuition revenue shall be adjusted as follows:~~

~~(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and~~

~~(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b. The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~**Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)**~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

   a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

   b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

   c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

      (1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

      (2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

      (3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

         (a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

         (b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

         (c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~, until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~ and~~

d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted

student units to determine the district's baseline funding per weighted student unit.

b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline

weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2)~~ ~~For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

a. Subtract an amount equal to ~~sixty~~the sum of:

(1) Forty mills multiplied by the taxable valuation of residential, agricultural, and commercial property in the school district. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter; and

(2) Sixty mills multiplied by the taxable valuation of centrally assessed property in the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

   a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

   b. The total number of mills levied in the previous calendar year by each school district for all purposes, separated by property classification; and

   c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes, separated by property classification.

SECTION 3. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall ~~utilize an amount equal to sixty~~deduct the sum of the following:

1. Forty mills times twenty percent of the state average valuation of residential, agricultural, and commercial property per student multiplied by the number of weighted student units in the district; and

2. Sixty mills times twenty percent of the state average valuation of centrally assessed property per student multiplied by the number of weighted student units in the district.

SECTION 4. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

c. The exemption must be determined according to the following schedule:

(1) If the person's income is not in excess of ~~twenty-two~~fifty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

(2) If the person's income is in excess of ~~twenty-two~~fifty thousand dollars and not in excess of ~~twenty-six~~seventy-five thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with~~

~~the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

i. A person who is eligible for an exemption under this subsection is eligible to receive a full or partial exemption under this subsection based on the date of submission of the verified statement of facts required under subdivision f. If the person submits the verified statement of facts:

(1) By February first of the current taxable year, the person is eligible for the full exemption under this subsection.

(2) After February first of the current taxable year and no later than November fifth of the current taxable year, the person is eligible to receive a pro rata share of the exemption under this subsection. To claim a pro rata share of the exemption under this subsection, the person shall submit the verified statement of facts by the fifth day of the month preceding the first full month of the prorated exemption. The tax commissioner shall calculate the pro rata share of the exemption based on the number of months remaining in the taxable year, beginning the month after the verified statement of facts is timely submitted.

SECTION 5. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 6. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.

2. For purposes of this section:

a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.

b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.

c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.

d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.

e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to

this section, but the provisions of this section do not apply to the following:

a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.

b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 7. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.

a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.

b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

e. For taxable years beginning after 2012:

(1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~fifty mills on the dollar of the taxable valuation of residential, agricultural, and commercial property in the school district and seventy mills on the dollar of taxable valuation of centrally assessed property in the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 8. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used~~

~~in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5.~~ ~~The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6.~~ ~~Nothing in this section limits the board of a school district from levying:~~

~~a.~~ ~~Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b.~~ ~~Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~**School district levies. (Effective for taxable years beginning after December 31, 2024)**~~

1. a. The board of a school district may levy a tax ~~not exceeding~~for the school district's local contribution to the costs of education which may not exceed the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~:

(1) Forty mills on the taxable valuation of residential, agricultural, and commercial property in the district~~, for any purpose related to the provision of educational services~~. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter.

(2) Sixty mills on the taxable valuation of centrally assessed property in the district.

b. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 9. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. ~~Provide~~For tax statements to be mailed to an owner of a residential, agricultural, or commercial parcel of land, provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus the ~~number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Seventy mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~forty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 10. AMENDMENT. Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.

a. Single, other than head of household or surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$37,450~~	~~1.10%~~	~~$0~~
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~
$0	$44,725	$0.00 + 0.00%	$0
$44,725	$108,325	$0.00 + 2.04%	$44,725
$108,325	$225,975	$1,297.44 + 2.27%	$108,325
$225,975	$491,350	$3,968.10 + 2.64%	$225,975
$491,350		$10,974.00 + 2.90%	$491,350

b. Married filing jointly and surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~
$0	$74,750	$0 + 0.00%	$0
$74,750	$180,550	$0.00 + 2.04%	$74,750
$180,550	$275,100	$2,158.32 + 2.27%	$180,550
$275,100	$491,350	$4,304.61 + 2.64%	$275,100
$491,350		$10,013.61 + 2.90%	$491,350

c. Married filing separately.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~
$0	$37,375	$0 + 0.00%	$0

$37,375	$90,275	$0.00 + 2.04%	$37,375
$90,275	$137,550	$1,079.16 + 2.27%	$90,275
$137,550	$245,675	$2,152.30 + 2.64%	$137,550
$245,675		$5,006.80 + 2.90%	$245,675

d. Head of household.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~
$0	$59,950	$0 + 0.00%	$0
$59,950	$154,750	$0.00 + 2.04%	$59,950
$154,750	$250,550	$1,933.92 + 2.27%	$154,750
$250,550	$491,350	$4,108.58 + 2.64%	$250,550
$491,350		$10,465.70 + 2.90%	$491,350

e. Estates and trusts.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$2,500~~	~~1.10%~~	~~$0~~
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04%~~	~~$2,500~~
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27%~~	~~$5,900~~
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~
$0	$3,000	$0 + 0.00%	$0
$3,000	$7,050	$0.00 + 2.04%	$3,000
$7,050	$10,750	$82.62 + 2.27%	$7,050
$10,750	$14,650	$166.61 + 2.64%	$10,750
$14,650		$269.57 + 2.90%	$14,650

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 11. REPEAL. Section 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 12. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. 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.

SECTION 13. EFFECTIVE DATE. Sections 4, 6, 7, 8, and 10 of this Act are effective for taxable years beginning after December 31, 2022."

Renumber accordingly

2023 SENATE APPROPRIATIONS

HB 1158

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1158
3/24/2023

A BILL for an Act relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

10:10 AM Chairman Bekkedahl opened the hearing on HB 1158.

Members present: Senators Bekkedahl, Krebsbach, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Meyer, Schaible, Sorvaag, Vedaa, Wanzek, Rust, and Mathern.

Members absent: Senator Roers

Discussion Topics:
- State aid payments
- Homestead tax credit
- Property tax statements
- Mill levy authority
- State aid payments
- Tax relief
- Tax brackets
- Income tax
- Caps on mill rates
- Committee discussion

10:10 AM Senator Kannianen, introduced the bill, testified in favor, no written testimony

10:32 AM Brandt Dick, North Dakota Small Organized Schools, testified in favor, testimony # 26543

10:39 AM Carlee McLeod, Utility Shareholders of North Dakota, testified in opposition, no written testimony

10:49 AM Adam Tescher, Director School Finance Department of Public Instruction, testified neutral, no written testimony

10:53 AM Matt Pearl, North Dakota Tax Department, answered questions from the committee, no written testimony

10:54 AM Recess

11:19 AM Committee discussion

Additional written testimony:
- **Alb Yas, testimony # 25912**
- **Amy McBeth, testimony # 26533**
- **Cale Dunwoody, testimony # 26545**

11:22 AM Chairman Bekkedahl closed the hearing.

Kathleen Hall, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1158
3/27/2023

A BILL for an Act relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

3:04 PM Chairman Bekkedahl opened the meeting on HB 1158.

Members present: Senators Bekkedahl, Krebsbach, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Roers, Schaible, Sorvaag, Vedaa, Wanzek, Rust, and Mathern.
Members absent: Senator Meyer

Discussion Topics:
- Funding sources
- Income tax relief
- Financial impact
- Long term strategy
- Related bills

3:04 AM Senator Tim Mathern, introduced an amendment, LC 23.0351.02010, testimony #26747 and # 26769

3:07 AM Senator Mathern moved to ADOPT amendment 23.0351.02010
Senator Davison seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	N
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	AB
Senator Jim P. Roers	N
Senator David S. Rust	N
Senator Donald Schaible	Y
Senator Ronald Sorvaag	N
Senator Shawn Vedaa	N
Senator Terry M. Wanzek	N

Motion passed 9-6-1.

3:27 PM Senator Davison moved DO PASS AS AMENDED.
Senator Krebsbach seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	N
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	AB
Senator Jim P. Roers	N
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	N
Senator Terry M. Wanzek	N

Motion passed 11-4-1.

Senator Patten will carry the bill.

3:30 PM Chairman Bekkedahl closed the meeting.

Kathleen Hall, Committee Clerk

[Note: The committee reconsidered actions on March 18, 2023 at 2:17 PM.]

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1158
3/28/2023

A BILL for an Act relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

2:17 PM Chairman Bekkedahl opened the meeting on HB 1158.

Members present: Senators Bekkedahl, Krebsbach, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Meyer, Roers, Schaible, Sorvaag, Vedaa, Wanzek, Rust, and Mathern.

Discussion Topics:

- Committee action

3:04 AM Senator Meyer moved to RECONSIDER yesterday's action on HB 1158.
Senator Roers seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	N
Senator Curt Kreun	Y
Senator Tim Mathern	N
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	N
Senator Shawn Vedaa	AB
Senator Terry M. Wanzek	Y

Motion passed 12-3-1.

2:21 PM Senator Meyer moved to withdraw AMENDMENT LC 23.0351.02010, testimony #26747.
Senator Roers seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	N
Senator Randy A. Burckhard	Y
Senator Kyle Davison	N
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	N
Senator Curt Kreun	Y
Senator Tim Mathern	N
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	N
Senator Shawn Vedaa	Y
Senator Terry M. Wanzek	Y

Motion passed 11-5-0.

2:33 PM Senator Meyer moved DO PASS.
Senator Roers seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	N
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	N
Senator Curt Kreun	Y
Senator Tim Mathern	N
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	Y
Senator Terry M. Wanzek	Y

Motion passed 13-3-0.

Senator Kannianen will carry the bill.

2:46 PM Chairman Bekkedahl closed the meeting.

Kathleen Hall, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1158, as amended: Appropriations Committee (Sen. Bekkedahl, Chairman) recommends **DO PASS** (13 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1158, as amended, was placed on the Fourteenth order on the calendar. This bill affects workforce development.

2023 CONFERENCE COMMITTEE

HB 1158

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/6/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one- and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the conference committee meeting at 3:02 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel. Members absent: none.

Discussion Topics:
- Income tax
- Mill levy buy down
- Centrally assessed property
- Homestead tax credit
- Property tax

Chairman Kannianen explained the Senate amendments.

Committee discussion.

Chairman Headland adjourned at 3:14 PM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/10/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 11:30 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel. No members absent.

Discussion Topics:
- SB 2066 discussion
- Centrally assessed property
- Compliance with federal law
- Cap on mills

Kayla Effertz, BNSF Railway, verbally testified in opposition to SB 2066.

Shane Goettle, MDU Resources, verbally testified in opposition to SB 2066.

Danette Welsh, Oneok, verbally testified in opposition to SB 2066.

Arik Spencer, Greater North Dakota Chamber, verbally testified in opposition to SB 2066.

Zac Smith, North Dakota Association of Rural Electric Cooperatives, verbally testified in opposition to SB 2066.

Brandt Dick, President of North Dakota Small Organized Schools, verbally testified on school funding.

Adam Tescher, School Finance Director with North Dakota Department of Public Instruction, answered questions from the committee.

Brian Kroshus, North Dakota Tax Commissioner, answered questions from the committee.

Chairman Headland adjourned at 12:00 PM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/10/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 3:00 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel. No members absent.

Discussion Topics:
- Centrally assessed property
- Mill levies
- Tax relief

Shelli Myers, Property Tax Specialist with the North Dakota Tax Department, provided information to the committee on centrally assessed properties.

Chairman Headland asked the Senate if they would be willing to go with less than 20 mills.

Shelli Myers, Property Tax Specialist with the North Dakota Tax Department, provided the committee dollar amounts with less than 20 mills.

The committee asked the Tax Department for additional information.

Committee discussion.

Melanie Aeschliman, State Supervisor of Assessments with the North Dakota Tax Commissioner's Office, spoke to the information requested of her by the committee.

Chairman Headland adjourned at 3:29 PM.

Mary Brucker, Committee Clerk

Date: April 6, 2023
Roll Call Vote #: 1

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1158 as (re) engrossed

House Finance and Taxation Committee

Action Taken
- ☐ **HOUSE accede to Senate Amendments**
- ☐ **HOUSE accede to Senate Amendments and further amend**
- ☐ **SENATE recede from Senate amendments**
- ☐ **SENATE recede from Senate amendments and amend as follows**

- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: ________________________ Seconded by: ____________________________

Representatives	4/6	*4/10 AM*	*4/10 PM*	Yes	No		Senators	4/6	*4/10 AM*	*4/10 PM*	Yes	No
Chairman Headland	x	x	x				*Chairman Kannianen*	x	x	x		
Rep. Hagert	x	x	x				*Senator Patten*	x	x	x		
Rep Bosch	x	x	x				Senator Rummel	x	x	x		
Total Rep. Vote							Total Senate Vote					

Vote Count Yes: __________ No: __________ Absent: __________

House Carrier ________________________ Senate Carrier ________________________

LC Number ________________________ . ______________________ of amendment

LC Number ________________________ . ______________________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/12/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the conference committee meeting at 10:30 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, Senator Rummel. Members absent: none.

Discussion Topics:
- Centrally assessed property
- Mill levy buydown
- Income tax versus property tax

Committee discussion.

Brian Kroshus, North Dakota Tax Commissioner, distributed county comparisons of individual income taxes versus residential property taxes (#27495).

Committee discussion.

Committee members will discuss further within their chambers.

Chairman Headland adjourned at 11:12 AM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/12/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the conference committee meeting at 3:00 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, Senator Rummel. Members absent: none.

Discussion Topics:
- Commercial and agricultural property tax relief
- Centrally assessed property
- Property tax relief versus income tax relief
- Mill levy buy down

Senate committee members were unable to share the information from this morning's meeting with the Senate chamber members at this time.

Committee discussion.

Additional written testimony: #27511

Chairman Headland adjourned at 3:28 PM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/13/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 3:07 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Proposed amendments 23.0351.02012
- Dual effective dates
- Mill levy buy downs
- Homestead tax credit
- Income tax credit

Chairman Headland distributed proposed amendments 23.0351.02012 (#27546 and 27547) and explained.

Megan Gordon, Legislative Council, explained the amendment section by section.

Committee discussion.

Chairman Headland adjourned at 3:33 PM.

Mary Brucker, Committee Clerk

Date: 4/12/2023
Roll Call Vote #: 1

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL NO. HB 1158

House Finance and Taxation Committee

Action Taken
- ☐ **HOUSE accede to Senate Amendments**
- ☐ **HOUSE accede to Senate Amendments and further amend**
- ☐ **SENATE recede from Senate amendments**
- ☐ **SENATE recede from Senate amendments and amend as follows**

- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: ____________________ Seconded by: ____________________

Representatives	*4/12 AM*	*4/12 PM*	*4/13*	Yes	No		Senators	*4/12 AM*	*4/12 PM*	*4/13*	Yes	No
Chairman Headland	X	X	X				*Chairman Kannianen*	X	X	X		
Rep Hagert	X	X	X				*Senator Patten*	X	X	X		
Rep Bosch	X	X	X				*Senator Rummel*	X	X	X		
Total Rep. Vote							Total Senate Vote					

Vote Count Yes: ________ No: ________ Absent: ________

House Carrier ____________________ Senate Carrier ____________________

LC Number ____________________ . ____________________ of amendment

LC Number ____________________ . ____________________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/14/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates and trusts.

Chairman Headland opened the conference committee meeting at 11:00 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:

- Proposed amendments

Senator Rummel proposed an amendment to zero out the bottom bracket by using a steppingstone of two steps instead of one (#27569).

Committee discussion.

Chairman Headland distributed a proposed amendment with a flat income tax, 15 mill relief and homestead credit (#27570).

Matt Peyerl, Office of the State Tax Commissioner, clarified information for the committee.

Chairman Headland adjourned at 11:32 AM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/17/2023
Conference Committee

A bill relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 3:00 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Calculation of mill levy buydown
- Tiered approach versus a flat rate of income tax reduction

Chairman Headland informed the committee of a change in the calculation of the buy down.

Bryan Bittner, Research Analyst with the Office of the State Tax Commissioner, informed the committee of recent calculation changes. He will submit these calculations in writing.

Committee discussion.

Senator Rummel distributed a proposal of varying brackets (#27632).

Chairman Headland adjourned at 3:29 PM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/18/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one-and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 11:30 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Homestead tax credit
- Mill levy buydown
- Income tax relief
- Centrally assessed property
- Committee vote

Chairman Headland addressed the committee.

Senator Patten informed the committee of the Senate's intent on this bill.

Representative Hagert moved the Senate recede from Senate amendments.

Representative Bosch seconded the motion.

Roll call vote: 3-3-0
Motion failed

Senator Rummel moved the Senate recede from Senate amendments and amend with a four-tiered level of income tax relief and a mill levy buydown of 15 mills.

Senator Patten seconded the motion.

Committee discussion.

Roll call vote: 3-3-0
Motion failed

Representative Hagert moved the Senate recede from Senate amendments and amend with 0% first level then 1.99% for the remaining levels with a $5,000 step down in the tax rates, include language from HB 1425 with 25 basis points, and rural electrics language.

Representative Bosch seconded the motion.

Roll call vote: 3-3-0
Motion failed

Chairman Headland adjourned at 11:49 AM.

Mary Brucker, Committee Clerk

Date: 4/18/2023
Roll Call Vote #: 1

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1158 as (re) engrossed

House Finance and Taxation Committee

Action Taken
☐ **HOUSE accede to Senate Amendments**
☐ **HOUSE accede to Senate Amendments and further amend**
☒ **SENATE recede from Senate amendments**
☐ **SENATE recede from Senate amendments and amend as follows**

☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: *Rep. Hagert* Seconded by: *Rep. Bosch*

Representatives	4/14	4/17	4/18 AM	Yes	No		Senators	4/14	4/17	4/18 AM	Yes	No
Chairman Headland	x	x	x	X			Chairman Kannianen	x	x	x		X
Rep Hagert	x	x	x	X			Senator Patten	x	x	x		X
Rep Bosch	x	x	x	X			Senator Rummel	x	x	x		X
												X
Total Rep. Vote				3	0		Total Senate Vote				0	3

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier ________ Senate Carrier ________

LC Number ________ . ________ of amendment

LC Number ________ . ________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Date: 4/18/2023
Roll Call Vote #: 2

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1158 as (re) engrossed

House Finance and Taxation Committee

Action Taken
☐ **HOUSE accede to Senate Amendments**
☐ **HOUSE accede to Senate Amendments and further amend**
☐ **SENATE recede from Senate amendments**
☒ **SENATE recede from Senate amendments and amend as follows**
4-tiered income tax relief, 15 mill buydown and homestead tax relief
☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: *Senator Rummel* Seconded by: *Senator Patten*

Representatives	4/18			Yes	No		Senators	4/18			Yes	No
Chairman Headland	x				X		Chairman Kannianen	x			X	
Rep Hagert	x				X		Senator Patten	x			X	
Rep Bosch	x				X		Senator Rummel	x			X	
Total Rep. Vote				0	3		Total Senate Vote				3	0

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier ______________ Senate Carrier ______________

LC Number ______________ . ______________ of amendment

LC Number ______________ . ______________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment
4-tiered income tax relief, 15 mill buydown and homestead tax relief

Date: 4/18/2023
Roll Call Vote #: 3

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1158 as (re) engrossed

House Finance and Taxation Committee

Action Taken
☐ **HOUSE accede to Senate Amendments**
☐ **HOUSE accede to Senate Amendments and further amend**
☐ **SENATE recede from Senate amendments**
☒ **SENATE recede from Senate amendments and amend as follows**
See below
☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: *Representative Hagert* Seconded by: *Representative Bosch*

Representatives	4/18			Yes	No		Senators	4/18			Yes	No
Chairman Headland	x			x			Chairman Kannianen	x				x
Rep Hagert	x			x			Senator Patten	x				x
Rep Bosch	x			x			Senator Rummel	x				x
Total Rep. Vote				3	0		Total Senate Vote				0	3

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier ________ Senate Carrier ________

LC Number ________ . ________ of amendment

LC Number ________ . ________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment
Zero percent on the first level then 1.99% for the remaining levels with a $5,000 step down.
Language from HB 1425 with 25 basis points and rural electrics language.

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/21/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one-and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 11:33 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Property tax relief
- Primary residence credit
- Homestead tax credit

Chairman Headland distributed a new option for property relief: primary residence and an associated credit (#27793).

Dee Wald, General Counsel with the Office of the State Tax Commissioner, explained the new proposal.

Committee discussion.

Chairman Headland adjourned at 11:57 AM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/22/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one-and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the conference committee meeting at 10:31 AM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Primary residence credit
- Property tax statements
- County concerns

Brian Kroshus, North Dakota Tax Commissioner, answered questions from the committee.

Committee discussion.

Chairman Headland adjourned at 10:42 AM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/22/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 2:00 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Proposed amendments
- Software development
- Process for development of tax credits throughout the biennium

Chairman Headland proposed an amendment to include an income tax reduction of $358 million by compressing the brackets and having three rates in the bracket; property tax to include a new concept for primary residences with an application process and $500 tax credit; and homestead tax to include an additional $53.5 million credit.

Chairman Kannianen explained the proposed amendment further.

Chairman Headland also proposed that over the interim looking at income and property tax relief and bringing us to a more permanent tax reduction leading to a flat income tax.

Representative Bosch proposed $1 million in software development.

Committee discussion regarding the process of development throughout the biennium.

Brian Kroshus, North Dakota Tax Commissioner, answered questions from the committee.

Chairman Headland adjourned at 2:15 PM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1158
4/24/2023
Conference Committee

A bill relating to the imposition of a flat income tax of one and one-half percent for individuals, estates, and trusts.

Chairman Headland opened the meeting at 3:00 PM.

Members present: Chairman Headland, Representative Hagert, Representative Bosch, Chairman Kannianen, Senator Patten, and Senator Rummel.

Discussion Topics:
- Proposed amendment 23.0351.02013
- Additional proposed amendments
- Committee vote

Chairman Headland proposed an amendment 23.0351.02013 (#27853, 27854).

Committee discussion.

Chairman Headland reviewed amendment 23.0351.02013 with the committee and the committee suggested the following additions/changes in the proposed amendment:
Section 2, subsection 7, add "state tax commissioner" instead of "county auditor"
Section 2, subsection 8, add language "tax commissioner in coordination with county auditors"
Section 2, subsection 8, add in language "The county auditors and the state tax department"
Section 5, subsection 1, add "the legislative management shall appoint"
Section 5, subsection 2 and 3, remove "if appointed" and add "must consist of"
Section 5, subsection 4, add in "Options to adjust the individual income tax structure"

Senator Patten moved the Senate recede from Senate amendments and amend with 23.0351.02013 and additional amendments as stated above.

Representative Bosch seconded the motion.

Roll call vote: 6-0-0
Motion carried.

Chairman Headland is the House carrier and Chairman Kannianen is the Senate carrier.

Chairman Headland adjourned at 3:32 PM.

Mary Brucker, Committee Clerk

Adopted by the Conference Committee

ung 4/25/23 1088

April 24, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1158

That the Senate recede from its amendments as printed on pages 1468-1485 of the House Journal and pages 1076-1095 of the Senate Journal and that House Bill No. 1158 be amended as follows:

Page 1, line 1, after "Act" insert "to create and enact two new sections to chapter 57-02 of the North Dakota Century Code, relating to a property tax credit for property used as a primary residence;"

Page 1, line 1, after "reenact" insert "subsection 1 of section 57-02-08.1 and"

Page 1, line 2, replace "imposition of a flat" with "homestead tax credit and"

Page 1, line 2, replace "rate of one and one-half percent" with "rates"

Page 1, line 3, replace "and" with "to provide for a legislative management study; to provide for a legislative management report; to provide an appropriation;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 4, insert:

"**SECTION 1. AMENDMENT.** Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~forty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

      (2) If the person's income is in excess of ~~twenty-two~~forty thousand dollars and not in excess of ~~twenty-six~~seventy thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

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~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 2. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

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Primary residence credit - Qualification - Application.

1. An individual is entitled to a credit of five hundred dollars against the property tax due on the individual's primary residence. The credit may not exceed the amount of property tax due. The credit must be applied to reduce the property tax owed on the individual's primary residence after other exemptions or credits under this chapter have been applied.

2. For purposes of this section, "primary residence" means a dwelling in this state owned and occupied by an individual as that individual's primary place of residence and includes residences taxed under chapter 57-55. An individual may not have more than one primary residence.

3. An individual who does not reside in the primary residence in this state is eligible for the credit under this section if the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.

4. Only one credit under this section may be applied against the property taxes levied against any primary residence.

5. An individual whose primary residence is a farm structure exempt from taxation under subsection 15 of section 57-02-08 is not eligible for a credit under this section.

6. The credit may not reduce the liability for special assessments levied upon any property.

7. To apply for a credit under this section, an applicant shall sign and file with the tax commissioner, by April first of each year, an application containing a verified statement of facts establishing the applicant's eligibility as of the date of the claim on a form and in the manner prescribed by the tax commissioner.

8. The tax commissioner, in consultation with the county auditors, shall prescribe, design, and make available all forms necessary to effectuate this section. The tax commissioner shall make these forms available upon request.

SECTION 3. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Certification - Distribution.

1. By June first of each year, the tax commissioner shall:

   a. Review the applications received under section 2 of this Act and determine which applicants qualify for the credit allowed under section 2 of this Act; and

   b. Provide to each county auditor:

      (1) A copy of each approved application under subdivision a which identifies a primary residence located in the county; and

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(2) The sum of the credits allowed under section 2 of this Act in the county for the current taxable year.

2. The county auditor shall apply the credit under section 2 of this Act to each primary residence identified by the tax commissioner as a qualifying primary residence on the corresponding property tax statement.

3. By January first of each year, the county auditor shall certify to the tax commissioner the sum of the credits approved by the tax commissioner under subsection 1 which were applied toward property taxes owed on primary residences in the county for the preceding year.

4. By June first of each year after 2024, the tax commissioner shall review a sampling of information provided by the county auditor to verify the accuracy of the application of the credit and certify to the state treasurer for payment to each county the aggregate dollar amount of credits allowed under section 2 of this Act in each county for the preceding year.

5. Within fourteen days of receiving the payment from the state treasurer, but no later than June thirtieth of each year after 2024, the county treasurer shall apportion and distribute the payment to the county and to the taxing districts of the county on the same basis as property taxes for the preceding year were apportioned and distributed.

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1. During the 2023-24 interim, the legislative management shall appoint a legislative tax relief advisory committee.

2. The committee must consist of three members of the finance and taxation standing committee of the house of representatives and three members of the finance and taxation standing committee of the senate, appointed by the respective majority leaders of the house of representatives and senate. The legislative management shall designate the chairman of the committee. The committee shall operate according to the statutes and procedures governing the operation of other legislative management interim committees.

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3. The committee shall study tax relief, including income and property tax relief.

   a. Based on information provided by the tax department, the study must include consideration of:

      (1) Historical income and property tax relief provided by the legislative assembly, including the estimated and actual fiscal impact of the tax relief;

      (2) An analysis of the tax relief provided by the sixty-eighth legislative assembly through individual income tax rate changes, a primary residence credit, and an expansion of the homestead credit, including the estimated fiscal impact for each method of tax relief and the effect of the income tax rate changes on passthrough income related to income reported on K-1 forms and royalty income reported on 1099-MISC forms;

      (3) Options to implement a flat individual income tax rate, including the estimated fiscal impact of the options;

      (4) Options to adjust the individual income tax structure, including the estimated fiscal impact of the options; and

      (5) An update on the progress of implementing the primary residence credit, including the status of information technology changes and the amount spent on advertising the credit.

   b. The committee may consider input from local taxing districts regarding the administration of the primary residence credit and the homestead credit.

   c. The committee shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-ninth legislative assembly.

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1. $103,225,000 for paying the state reimbursement under the primary residence credit;

2. $53,500,000 for paying the state reimbursement under the homestead credit; and

3. $1,500,000, which is considered a one-time funding item, for operating expenses related to information technology and advertising costs for the primary residence credit.

SECTION 7. EFFECTIVE DATE - EXPIRATION DATE. Section 2 of this Act is effective for the first two taxable years beginning after December 31, 2023, and after that date is ineffective."

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4/25/23
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Page 4, line 9, replace "This" with "Sections 1 and 4 of this"

Page 4, line 9, replace "is" with "are"

Page 4, line 10, after the period insert "Section 3 of this Act becomes effective on April 1, 2024.

SECTION 9. EXPIRATION DATE. Section 3 of this Act is effective through June 30, 2026, and after that date is ineffective."

Renumber accordingly

Date: April 24, 2023
Roll Call Vote #: 1

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL NO. HB 1158

House Finance and Taxation Committee

Action Taken
☐ **HOUSE accede to Senate Amendments**
☐ **HOUSE accede to Senate Amendments and further amend**
☐ **SENATE recede from Senate amendments**
☒ **SENATE recede from Senate amendments and amend as follows**
See below
☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: *Senator Patten* Seconded by: *Representative Bosch*

Representatives	4/24			Yes	No		Senators	4/24			Yes	No
Chairman Headland	X			X			Chairman Kannianen	X			X	
Rep Hagert	X			X			Senator Patten	X			X	
Rep Bosch	X			X			Senator Rummel	X			X	
Total Rep. Vote				3	0		Total Senate Vote				3	0

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Chairman Headland Senate Carrier Chairman Kannianen

LC Number 23.0351 . 02015 of amendment

LC Number 23.0351 . 05000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment
Amendment 23.0351.02013 with additional amendments as follows:
Section 2, subsection 7, add “state tax commissioner” instead of “county auditor”
Section 2, subsection 8, add language “tax commissioner in coordination with county auditors”
Section 2, subsection 8, add in language “The county auditors and the state tax department”
Section 5, subsection 1, add “the legislative management shall appoint”
Section 5, subsection 2 and 3, remove “if appointed” and add “must consist of”
Section 5, subsection 4, add in “Options to adjust the individual income tax structure”

REPORT OF CONFERENCE COMMITTEE

HB 1158: Your conference committee (Sens. Kannianen, Patten, Rummel and Reps. Headland, Hagert, Bosch) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1468-1485, adopt amendments as follows, and place HB 1158 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1468-1485 of the House Journal and pages 1076-1095 of the Senate Journal and that House Bill No. 1158 be amended as follows:

Page 1, line 1, after "Act" insert "to create and enact two new sections to chapter 57-02 of the North Dakota Century Code, relating to a property tax credit for property used as a primary residence;"

Page 1, line 1, after "reenact" insert "subsection 1 of section 57-02-08.1 and"

Page 1, line 2, replace "imposition of a flat" with "homestead tax credit and"

Page 1, line 2, replace "rate of one and one-half percent" with "rates"

Page 1, line 3, replace "and" with "to provide for a legislative management study; to provide for a legislative management report; to provide an appropriation;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 4, insert:

"**SECTION 1. AMENDMENT.** Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~forty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

      (2) If the person's income is in excess of ~~twenty-two~~forty thousand dollars and not in excess of ~~twenty-six~~seventy thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 2. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Qualification - Application.

1. An individual is entitled to a credit of five hundred dollars against the property tax due on the individual's primary residence. The credit may not exceed the amount of property tax due. The credit must be applied to

reduce the property tax owed on the individual's primary residence after other exemptions or credits under this chapter have been applied.

2. For purposes of this section, "primary residence" means a dwelling in this state owned and occupied by an individual as that individual's primary place of residence and includes residences taxed under chapter 57-55. An individual may not have more than one primary residence.

3. An individual who does not reside in the primary residence in this state is eligible for the credit under this section if the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.

4. Only one credit under this section may be applied against the property taxes levied against any primary residence.

5. An individual whose primary residence is a farm structure exempt from taxation under subsection 15 of section 57-02-08 is not eligible for a credit under this section.

6. The credit may not reduce the liability for special assessments levied upon any property.

7. To apply for a credit under this section, an applicant shall sign and file with the tax commissioner, by April first of each year, an application containing a verified statement of facts establishing the applicant's eligibility as of the date of the claim on a form and in the manner prescribed by the tax commissioner.

8. The tax commissioner, in consultation with the county auditors, shall prescribe, design, and make available all forms necessary to effectuate this section. The tax commissioner shall make these forms available upon request.

SECTION 3. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Certification - Distribution.

1. By June first of each year, the tax commissioner shall:

   a. Review the applications received under section 2 of this Act and determine which applicants qualify for the credit allowed under section 2 of this Act; and

   b. Provide to each county auditor:

      (1) A copy of each approved application under subdivision a which identifies a primary residence located in the county; and

      (2) The sum of the credits allowed under section 2 of this Act in the county for the current taxable year.

2. The county auditor shall apply the credit under section 2 of this Act to each primary residence identified by the tax commissioner as a qualifying primary residence on the corresponding property tax statement.

3. By January first of each year, the county auditor shall certify to the tax commissioner the sum of the credits approved by the tax commissioner under subsection 1 which were applied toward property taxes owed on primary residences in the county for the preceding year.

4. By June first of each year after 2024, the tax commissioner shall review a sampling of information provided by the county auditor to verify the accuracy of the application of the credit and certify to the state treasurer for payment to each county the aggregate dollar amount of credits allowed under section 2 of this Act in each county for the preceding year.

5. Within fourteen days of receiving the payment from the state treasurer, but no later than June thirtieth of each year after 2024, the county treasurer shall apportion and distribute the payment to the county and to the taxing districts of the county on the same basis as property taxes for the preceding year were apportioned and distributed.

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Renumber accordingly

HB 1158 was placed on the Seventh order of business on the calendar.

TESTIMONY

HB 1158

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	-	

International Union of Painters & Allied Trades
District Council 82
AFL-CIO
Affiliated Locals, 61 - 106 - 386 - 681 - 880 - 1324 - 1922 - 1962 - 2002

House Bill No. 1158
Testimony-IN SUPPORT
Jeff Stark, Business Manager/Secretary-Treasurer
International Union of Painters & Allied Trades District Council 82
House Finance and Taxation Committee
January 11, 2023

Chairman Headland and members of the Committee, I am Jeff Stark, Business Manager/Secretary-Treasurer for the International Union of Painters & Allied Trades District Council 82. On behalf of the International Union of Painters and Finishing Trades (IUPAT), I am here today to offer our support for House Bill 1158, to reduce the personal income taxes of all hard-working North Dakota taxpayers.

The International Union of Painters & Allied Trades District Council 82 provides a voice for almost 3,000 workers in the finishing trades across Minnesota, Montana, North Dakota, South Dakota, and western Wisconsin. Our members are trained in a variety of industry needs, including industrial and commercial painting, drywall finishing, glazing, glass work, sign installation, convention workers, silk screen paint making and embroidery.

Our support for your bill is not a union or non-union matter, it is about hard-working North Dakotans getting the tax relief they need and deserve right now. With the price of gas, food, day-care, clothes, you name it, going up right now – our members strongly believe the pinch on middle class families has reached a breaking point. By eliminating income taxes for a large portion of North Dakota taxpayers, it will put money in their family budgets right away and provide them with ongoing saving they can count on.

We whole heartedly agree with Governor Doug Burgum when he said in his state of the state address, "Let's show our working families in North Dakota that we understand their struggles by expediting this income tax relief legislation and making it one of the first bills to be signed this session."

By eliminating three out of the five tax brackets, and reducing the remaining tax rate to 1.5%, North Dakota will have the lowest income tax rate of any state in the country that has an income tax. Our members, and all North Dakotans will feel that relief and have more money to put back into the state's economy, helping to build a better future for all of us.

Like many other organizations and businesses in North Dakota, we are struggling to find more workers. The tax relief in this bill will help both labor and management equally and show that the state of North Dakota is serious about attracting new workers in this highly competitive workforce market.

Our members are looking for a commitment on tax relief from their elected representatives that is permanent and consistent. Your bill provides that commitment. By using the one-time funding from budget surpluses to fund permanent tax relief, you are creating a legacy of economic growth for generations to come, for our members and all North Dakotans.

Mr. Chairman and members of the House Finance and Tax Committee, we believe Chairman Headland's bill will provide critical relief for IUPAT members and all North Dakotans. We strongly urge your support and ask you to pass this bill as quickly as possible so Governor Burgum can sign it into law.

Thank you for your consideration.

<u>HB 1158 – Testimony by Dustin Gawrylow (Lobbyist #266) North Dakota Watchdog Network</u>

The North Dakota Watchdog Network is in favor of the proposed Flat Income Tax.

The large universal exemption approach is the most fair way to prevent regressivity in the changes. Working classes receive a 100% income tax cut immediately.

We urge the committee to check the math to ensure there is no marriage penalties.

It appears there may be as the $74,750 married filing jointly is not exactly double the $44,775 threshold for single filers. And the married filing separately threshold of $37,375 is also not equal to the single filer rate.

If this was intentional, please explain the reasoning.

If it was not intentional, an amendment should be offered to fix this oddity.

Americans Moved to Low-Tax States in 2022

January 10, 2023

Janelle Fritts

Americans were on the move in 2022 and chose low-tax states over high-tax ones. That's the finding of recent U.S. Census Bureau population data and commercial datasets released this week by U-Haul and United Van Lines.

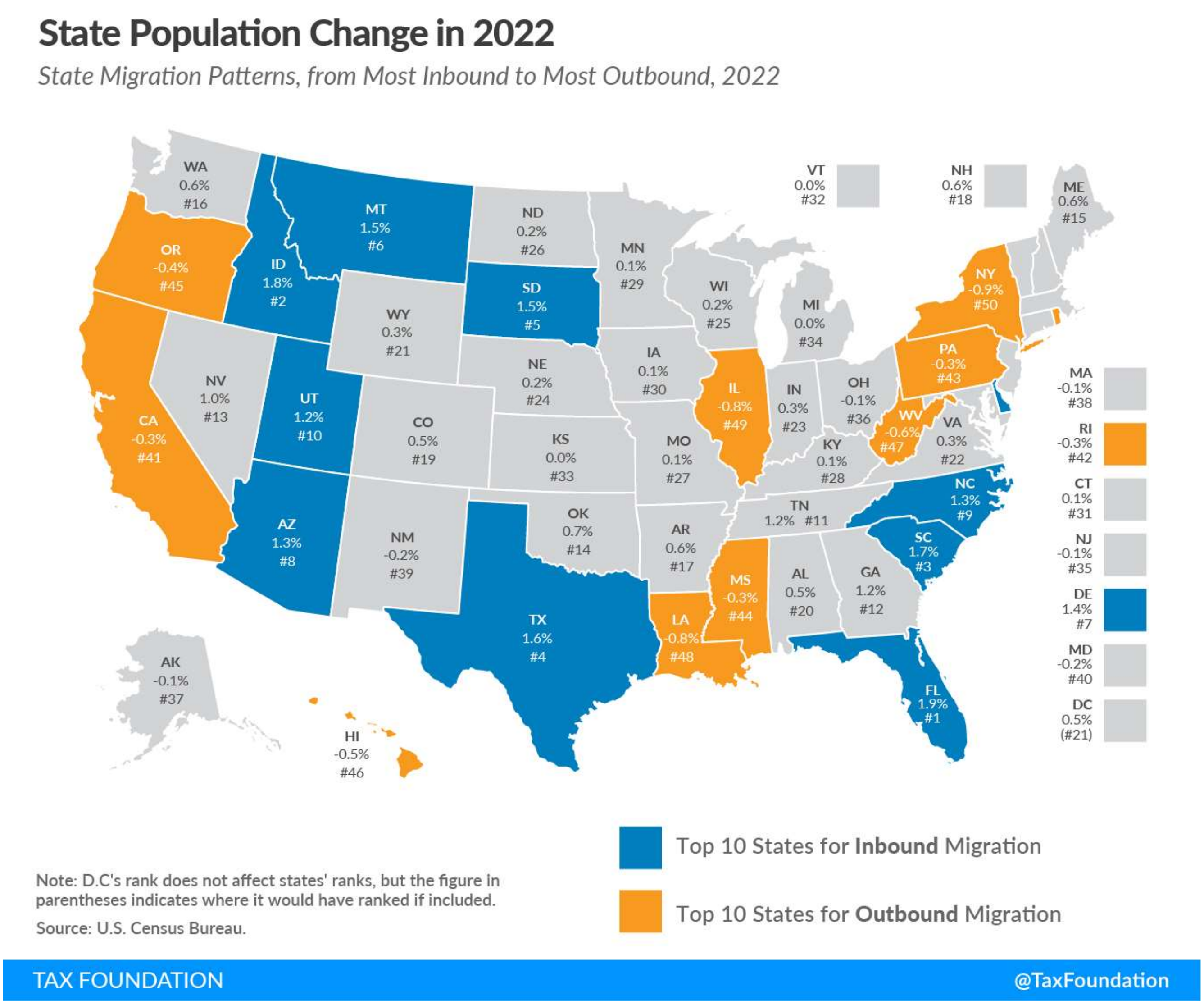
The U.S. population grew 0.4 percent between July 2021 and July 2022, an increase from the previous year's historically low rate of 0.1 percent. While international migration helped numbers on the national level, interstate migration was still a key driver of state population numbers. New York's population shrunk by 0.9 percent between July 2021 and July 2022, Illinois lost 0.8 percent of its population, and Louisiana (also 0.8 percent), West Virginia (0.6 percent), and Hawaii (0.5 percent) rounded out the top five jurisdictions for population loss. At the same time, Florida gained 1.9 percent, while Idaho, South Carolina, Texas, South Dakota, Montana, Delaware, Arizona, North Carolina, Utah, Tennessee, Georgia, and Nevada all saw population gains of 1 percent or more.

This population shift paints a clear picture: people left high-tax, high-cost states for lower-tax, lower-cost alternatives.

The individual income tax is illustrative here (though only one component of overall tax burdens, it is often highly salient). In the top third of states for population growth (including D.C.), the average combined top marginal state income tax rate is about 4.0 percent. In the bottom third, it's about 6.6 percent.

Six states in the top third forgo taxes on wage income (Florida, Texas, South Dakota, Tennessee, and Nevada, as well as Washington, which taxes capital gains income but not wage income), and the highest top rate in that cohort is Maine's 7.15 percent.

Among the bottom third, five jurisdictions—California, Hawaii, New Jersey, New York, and Oregon—have double-digit income tax rates, and—excepting Alaska, with no income tax—the lowest rate is in Pennsylvania, where a low state rate of 3.07 percent is paired with some of the highest local income tax rates in the country. Six states in the bottom third have local income taxes; only one in the top third does.



he Census data shows population gains and losses, but not cross-border migration. (The Census provides migration data but on a longer time delay.) Moving data from U-Haul and United Van Lines, while less robust—and undoubtedly influenced by their geographic coverage—speaks more directly to cross-border migration and is confirmatory. Both companies see states like California, Illinois, Massachusetts, and

New York as the biggest losers, while states like Texas, Florida, and Tennessee are among the largest net gainers.

Low-Tax States Saw More Population Growth and Higher Inbound Migration

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
Alabama	20	20	10
Alaska	37	41	n.a.
Arizona	8	7	20
Arkansas	17	43	18
California	41	50	40
Colorado	19	11	31
Connecticut	31	28	39
Delaware	7	27	5
District of Columbia	(21)	36	7
Florida	1	2	12
Georgia	12	8	19
Hawaii	46	n.a.	n.a.
Idaho	2	10	15
Illinois	49	49	48
Indiana	23	14	22
Iowa	30	21	34
Kansas	33	39	36
Kentucky	28	26	24
Louisiana	48	35	41
Maine	15	29	17
Maryland	40	44	30
Massachusetts	38	47	43
Michigan	34	48	46
Minnesota	29	17	29
Mississippi	44	34	37
Missouri	27	15	25
Montana	6	18	28
Nebraska	24	32	42
Nevada	13	13	26
New Hampshire	18	38	14

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
New Jersey	35	45	49
New Mexico	39	19	9
New York	50	46	47
North Carolina	9	4	6
North Dakota	26	37	32
Ohio	36	9	38
Oklahoma	14	42	33
Oregon	45	22	2
Pennsylvania	43	24	44
Rhode Island	42	40	3
South Carolina	3	3	4
South Dakota	5	31	8
Tennessee	11	6	11
Texas	4	1	16
Utah	10	12	35
Vermont	32	30	1
Virginia	22	5	21
Washington	16	23	23
West Virginia	47	25	13
Wisconsin	25	16	27
Wyoming	21	33	45
Sources: U.S. Census Bureau; U-Haul; United Van Lines.			

These industry studies record total migrations, whereas population data can be put in percentage terms, so large states like Texas—which, according to the Census Bureau, had the most population growth in nominal terms, but fourth-most in percentage terms—show up prominently while smaller states that saw large population surges, like Idaho, are somewhat lower on the list.

Another story from the industry data that is less apparent in Census population data is regional competition, even among comparatively high-tax states. Vermont is first in the United Van Lines data but middle-of-the-pack for overall population change because the state benefited from outmigration from densely populated Northeastern cities.

Similarly, U-Haul has relatively few inbound trips to Oklahoma, New Hampshire, and a few other states compared to United Van Lines and, more importantly, to Census data on population growth. Relatively local moves, such as those within the D.C. metropolitan area, can make a jurisdiction like the District of Columbia look like it is doing very well on United Van Lines data even though the Census data shows much milder growth. The industry data has limitations, but it remains informative.

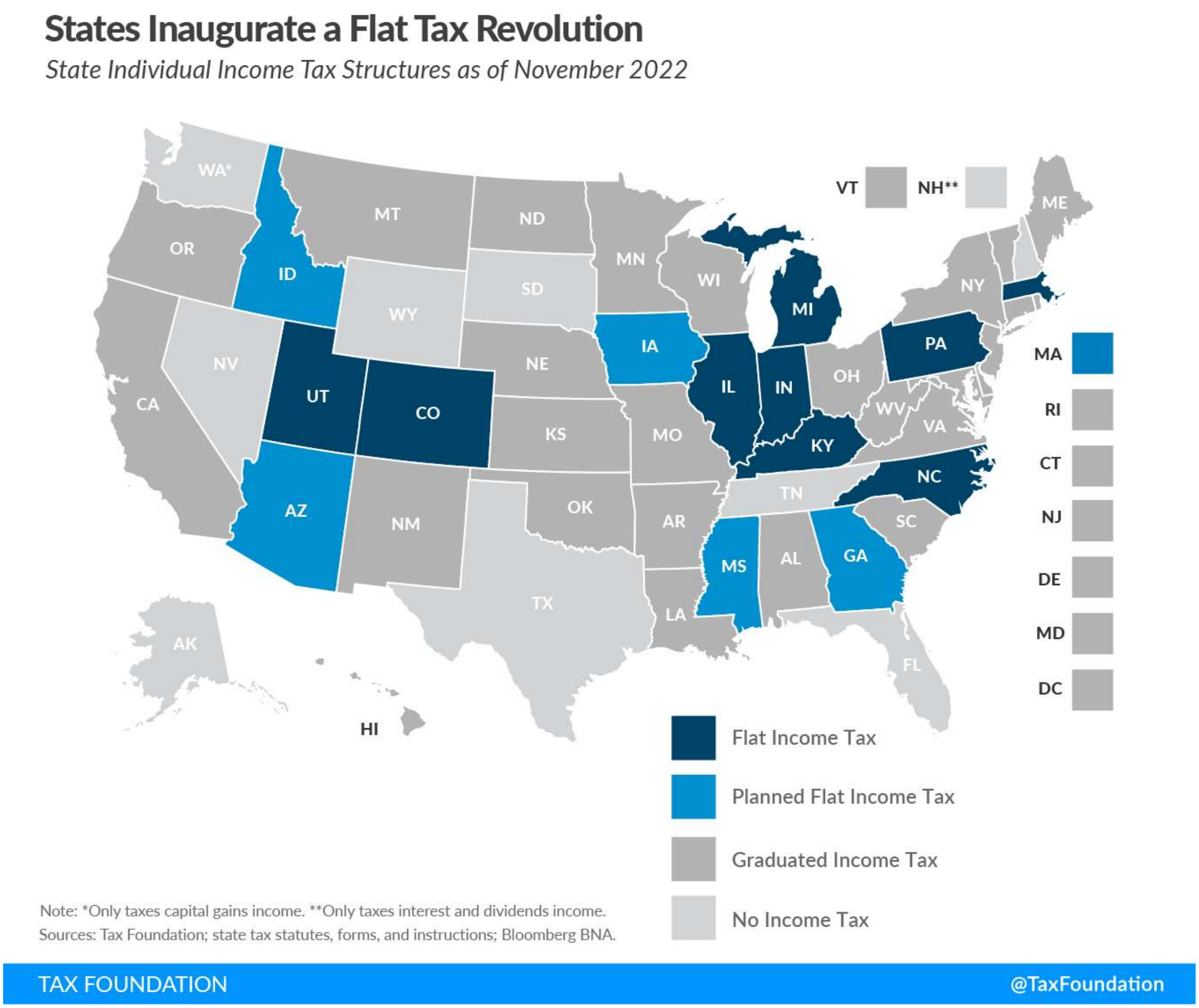
People move for many reasons. Sometimes taxes are expressly part of the calculation. Often, they play an indirect role (by contributing to a broadly favorable economic environment). And other times, of course, they don't factor in at all. The Census data and these industry studies cannot tell us exactly why each person moved, but there is no denying a very strong correlation between low-tax, low-cost states and population growth. With many states responding to robust revenues and heightened state competition by cutting taxes, these trends may only get larger.

The pandemic has accelerated changes to the way we live and work, making it far easier for people to move—and they have. As states work to maintain their competitive advantage, they should pay attention to where people are moving, and try to understand why.

States Inaugurate a Flat Tax Revolution

November 14, 2022

In more than a century of state income taxes, only four states have ever transitioned from a graduated-rate income tax to a flat tax. Another four adopted legislation doing so *this year*, and a planned transition in a fifth state is now going forward under a recent court decision. In what is already a year of significant bipartisan focus on tax relief, 2022 is also launching something of a flat tax revolution.



In 1987, the 75th anniversary of state income taxation, Colorado replaced its half century-old graduated-rate income tax with a single-rate tax. It would take another 30 years for another state to follow suit, when Utah implemented a flat tax in 2007. Next came North Carolina in 2014, as part of that state's comprehensive reforms, and most recently, Kentucky implemented a single rate of 5 percent in 2019. They joined five other states which already had flat taxes: Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania.

The first state income tax, implemented in Wisconsin in 1912, had a two-rate structure. The first flat tax was Massachusetts' tax, which went into effect in 1917. Five states had income taxes back then, with Massachusetts and Virginia both implementing them that January. Only five years passed between the first progressive income tax and the first flat income tax, but 75 years passed between the first progressive income tax and the first time one was transitioned from graduated to single rate. It took more than a century for three to do so—and four states have adopted legislation to make that transition just this year, with a fifth cleared for the transition by a court decision and a two more potentially in the wings.

Iowa is phasing in a 3.9 percent flat individual income tax by 2026, going from a graduated-rate tax that not long ago topped out at 8.98 percent. Mississippi will have a flat tax as of next year, with a 4 percent rate by 2026. Georgia's income tax is now scheduled to convert to a flat rate of 5.49 percent, eventually phasing down to 4.99 percent. A court cleared the way for the implementation of Arizona's transition to a 2.5 percent flat tax, which should happen, pending revenue availability, in 2024. In special session, Idaho adopted a 5.8 percent flat tax, replacing a four-bracket system. Missouri has been called into special session to adopt income tax rate cuts, but a flat tax could still be a consideration, soon if not this session, and a serious effort at adopting a flat tax is likely in Oklahoma next year.

Supporters of flat taxes often identify the simplicity as one of their salient features. This is true, but it's important to stop and ask what is meant by this. It is not enough to merely state that a single rate is simpler than multiple rates, because, while trivially true, it tells us relatively little. It is not particularly difficult to use tax tables to ascertain one's tax liability.

Flat taxes are meaningfully simple, however, in several ways. It is easier to forecast revenue under a flat tax, and to project the revenue effects of potential tax changes. It is easier for taxpayers to estimate their tax liability and how it would change under different income scenarios, which enhances tax transparency and potentially improves some economic decision-making. It accords better with impressions that taxpayers form of tax burdens based on headline rates, such that individuals and small businesses may be more attracted to a state with a relatively lower flat rate than one with a graduated-rate system that would yield similar liability. And it simplifies the function by which taxpayers decide whether to work or invest more on the margin, since all marginal returns to labor and investment are exposed to the same rate.

Of greater significance for taxpayers, however, is that flat-rate income taxes tend to function as a bulwark against unnecessary tax increases, and to provide greater certainty for individual and business taxpayers. Economic decisions are made on the margin; choices about investments, labor, or relocation will be made on the basis of the effect on the next dollar of income, not the prior ones. A competitive top marginal rate matters most for economic growth, and flat income taxes—given their "all-in" nature—not only mean a lower rate on that all-important margin, but tend to be harder to raise in the future, whereas highly graduated taxes are more susceptible to targeted, but often economically inefficient, tax hikes.

Taxpayers seem to sense this intuitively: it seems to have been persuasive in Illinois, for instance, where voters lopsidedly rejected a constitutional amendment permitting a graduated-rate structure even though the initially proposed tax increase would not increase tax liability for the vast majority of voters. They seemed to recognize that, once the principle was established, higher rates would be established for more and more taxpayers—even setting aside the implications for the state's economic competitiveness.

This is one reason why states with nearly-flat taxes should consider finishing the job. In Alabama, for instance, the current three-bracket system, with the top rate kicking in at $3,000 of income, only provides $40 in tax savings compared to taxing all income at the top rate. Raising the standard deduction would easily provide the same progressive benefits while embracing the simplicity and—more importantly—the certainty and stability of a single-rate tax. Five other states likewise have top rates that kick in at or below $10,000, including Idaho and Mississippi, which are now transitioning to a flat tax, and Oklahoma, where a flat tax is under active consideration.

Six States Have Nearly Flat Graduated-Rate Income Taxes

State	Brackets	Top Rate Kick-In	Maximum Savings
Alabama	3	$3,000	$40
Georgia	6	$7,000	$173
Idaho	4	$7,939	$222
Mississippi	2	$10,000	$50
Missouri	9	$8,704	$145
Oklahoma	6	$7,200	$191

State statutes; Tax Foundation calculations

These states now present an opportunity for reform culminating in a flat tax, but they also serve as a cautionary tale about the implications of not indexing a graduated-rate income tax. When Alabama adopted its graduated-rate income tax in 1935, the majority of taxpayers were fully exempt, and few taxpayers were subject to the top marginal rate of 5 percent on income above $3,000, which is equivalent to almost $63,500 in 2022, higher than today's median household income in the state and a small fortune in Depression-era Alabama. Over time, the lack of inflation indexing has subjected the vast majority of taxpayers' income to the top marginal rate. The same is true in Georgia, where policymakers have adopted a very gradual approach to a flat tax. Georgia's top rate has kicked in at $7,000 since 1955, when it was equivalent to about $75,000 in today's dollars.

Of the nine states that already have flat taxes, five enshrine that status in their state constitution, locking in the benefit and making it harder for lawmakers to raise taxes by switching to a progressive tax regime. This is a particularly important protection for small business owners, since about 95 percent of all businesses are pass-through businesses subject to individual, not corporate, income taxes, and the vast majority of pass-through business income is earned by companies exposed to states' top marginal income tax rates. In Illinois, for instance, where lawmakers championed a failed constitutional amendment to permit a graduated-rate income tax, 93 percent of pass-through business income was on returns with more than $200,000 in adjusted gross income (AGI), and over half of all pass-through business income was reported on returns showing more than $1 million in AGI. Hiking the top marginal rate is not just about the wealthy; it is about the state's small businesses too, and about providing a greater level of certainty for entrepreneurs making location decisions.

The states now transitioning to flat taxes, and those which have not yet constitutionally protected their current single-rate tax structures, should consider doing so. The following table shows states which currently have, or are on track to implement, a flat tax, with date of implementation (past or future) and whether a single rate tax is constitutionally mandated. Of the five states that have had flat taxes from the start, four enshrine this status in their constitution. Of the four that transitioned, only one does.

14 States Have, Or Are Implementing, Flat Income Taxes

State	**PIT Adopted**	**Flat As Of**	**Constitutional**
Arizona	*1933*	*2024*	
Colorado	1937	1987	✓
Georgia	*1929*	*2024*	
Idaho	*1931*	*2023*	
Illinois	1969	Always	✓
Indiana	1965	Always	

State	PIT Adopted	Flat As Of	Constitutional
Iowa	*1934*	*2026*	
Kentucky	1936	2019	
Massachusetts	1917	Always	✓
Michigan	1967	Always	✓
Mississippi	*1912*	*2023*	
North Carolina	1921	2014	
Pennsylvania	1971	Always	✓
Utah	1971	2007	

Notes: Georgia, Idaho, Iowa, and Mississippi are implementing flat taxes in accordance with legislation enacted this year, while in Arizona, a court has cleared the implementation of a 2021 law. Implementation dates in Arizona and Georgia are contingent on revenue availability.
Sources: State statutes; Tax Foundation research.

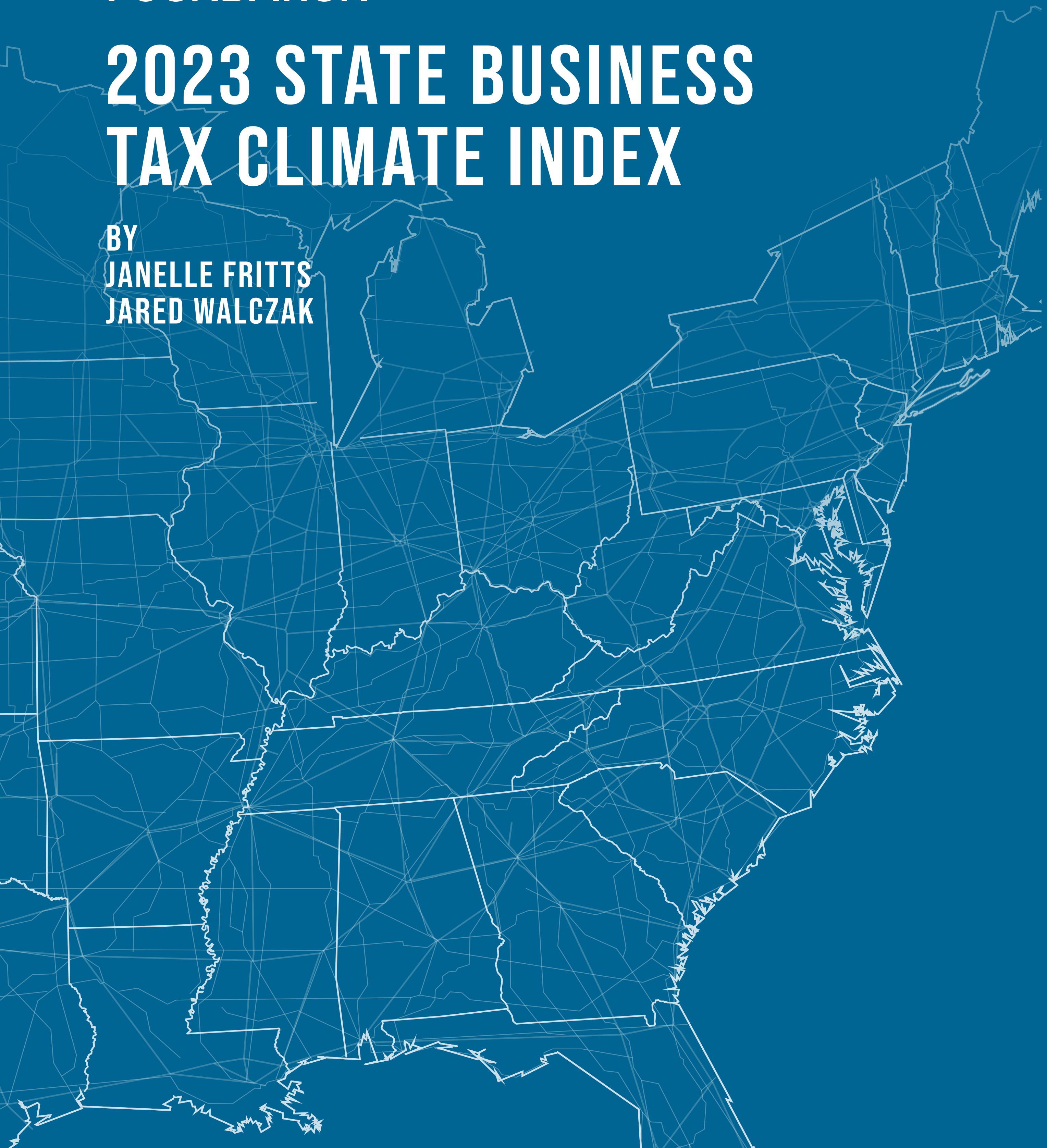
States shifted from graduated to single-rate income taxes in 1987, 2007, 2014, and 2019. A recent court decision will allow a 2021 law in Arizona to move forward. With new laws beginning that transition in Arizona, Georgia, Iowa, and Mississippi, 2022 has already seen the enactment or legal clearance of as many new flat taxes as we've seen transition in the history of state income taxes to date, and that's before any action is taken in Missouri and Oklahoma.

#12858

TAX FOUNDATION

2023 STATE BUSINESS TAX CLIMATE INDEX

BY
JANELLE FRITTS
JARED WALCZAK



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EXECUTIVE SUMMARY

The Tax Foundation's *State Business Tax Climate Index* enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare. While there are many ways to show *how much* is collected in taxes by state governments, the *Index* is designed to show *how well* states structure their tax systems and provides a road map for improvement.

The absence of a major tax is a common factor among many of the top 10 states. Property taxes and unemployment insurance taxes are levied in every state, but there are several states that do without one or more of the major taxes: the corporate income tax, the individual income tax, or the sales tax. Nevada, South Dakota, and Wyoming have no corporate or individual income tax (though Nevada imposes gross receipts taxes); Alaska has no individual income or state-level sales tax; Florida has no individual income tax; and New Hampshire and Montana have no sales tax.

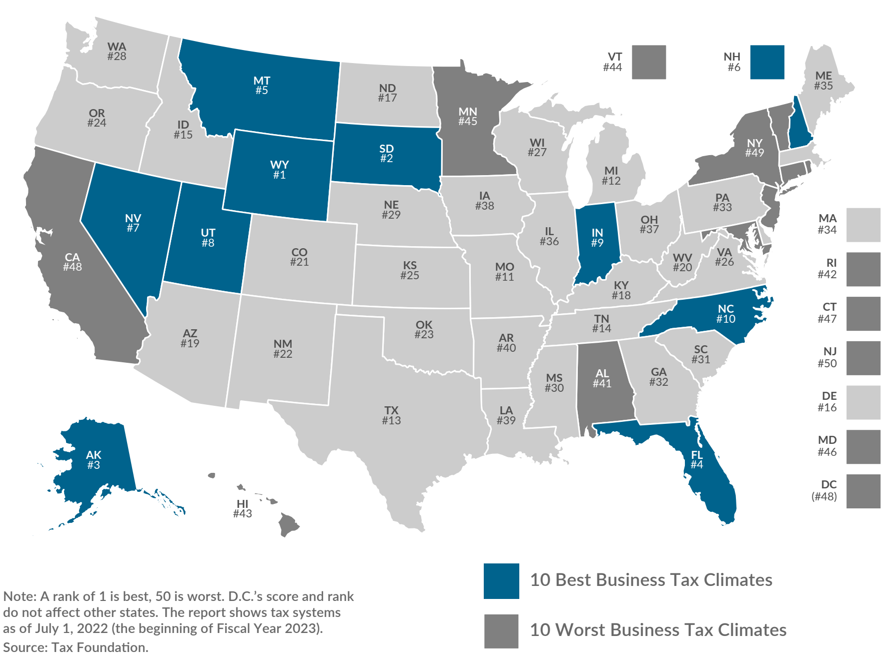
The 10 best states in this year's *Index* are:

1. Wyoming
2. South Dakota
3. Alaska
4. Florida
5. Montana
6. New Hampshire
7. Nevada
8. Utah
9. Indiana
10. North Carolina

The 10 lowest-ranked, or worst, states in this year's *Index* are:

41. Alabama
42. Rhode Island
43. Hawaii
44. Vermont
45. Minnesota
46. Maryland
47. Connecticut
48. California
49. New York
50. New Jersey

2023 *State Business Tax Climate Index*



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2022 (the beginning of Fiscal Year 2023).
Source: Tax Foundation.

This does not mean, however, that a state cannot rank in the top 10 while still levying all the major taxes. Indiana and Utah, for example, levy all the major tax types but do so with low rates on broad bases.

The states in the bottom 10 tend to have a number of afflictions in common: complex, nonneutral taxes with comparatively high rates. New Jersey, for example, is hampered by some of the highest property tax burdens in the country, has the highest-rate corporate income taxes in the county, and has one of the highest-rate individual income taxes. Additionally, the state has a particularly aggressive treatment of international income, levies an inheritance tax, and maintains some of the nation's worst-structured individual income taxes.

NOTABLE RANKING CHANGES IN THIS YEAR'S *INDEX*

Arizona

Arizona transitioned from a four-bracket individual income tax with a top rate of 4.5 percent to a two-bracket system with a top rate of 2.98 percent, a waypoint on the state's transition to a 2.5 percent single-rate tax. Initially scheduled for 2024, robust revenue growth has led to the certification of the 2.5 percent rate for January 1, 2023, a significant development that will further improve Arizona's ranking in next year's *Index*. This year's changes, however, were sufficient for Arizona to improve five places overall, from 24th to 19th.

Arkansas

Like many states, Arkansas adopted both corporate and individual income tax rate reductions. In Arkansas's case, these rate reductions—to a top individual income tax rate of 4.9 percent, down from 5.9 percent, and a corporate rate reduced from 6.2 to 5.9 percent—went into effect for the 2022 tax year. The corporate income tax rate reduction also resulted in the consolidation of an existing bracket. These changes were the primary driver of the state's improvement from 43rd to 40th overall.

Georgia

Under legislation adopted in 2022, Georgia will adopt a 5.49 percent flat-rate income tax in 2024 and ultimately phase that rate down to 4.99 percent. These changes, however, lie in the future, and for now, improvements in the tax policies of three other states—Mississippi, Nebraska, and South Carolina—saw Georgia slide three places by standing still.

Idaho

Idaho improved two places overall, from 17th to 15th, due to the implementation of individual and corporate income tax rate reductions which took the individual income tax's top rate, and the corporate income tax's flat rate, from 6.5 to 6.0 percent. A ballot measure that would have created a new top rate of 10.925 percent to raise additional revenue for public education was taken off the ballot, and a deal was struck instead to provide additional education funding while implanting a 5.8 percent flat individual income tax rate in 2023. This change, which will be reflected in next year's *Index*, will result in a further improvement in Idaho's ranking.

TABLE 1.

2023 *State Business Tax Climate Index* Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
Alabama	41	18	30	50	18	19
Alaska	3	28	1	5	26	44
Arizona	19	23	16	41	11	14
Arkansas	40	29	37	45	27	20
California	48	46	49	47	19	24
Colorado	21	7	14	40	36	42
Connecticut	47	27	47	23	50	23
Delaware	16	50	44	2	4	2
Florida	4	10	1	21	12	3
Georgia	32	8	35	31	28	35
Hawaii	43	19	46	27	32	30
Idaho	15	26	19	10	3	47
Illinois	36	38	13	38	44	43
Indiana	9	11	15	19	2	27
Iowa	38	34	40	15	40	33
Kansas	25	21	22	25	17	15
Kentucky	18	15	18	14	24	48
Louisiana	39	32	25	48	23	6
Maine	35	35	23	8	47	38
Maryland	46	33	45	30	42	41
Massachusetts	34	36	11	13	46	50
Michigan	12	20	12	11	25	8
Minnesota	45	43	43	29	31	34
Mississippi	30	13	26	33	37	5
Missouri	11	3	21	26	7	4
Montana	5	22	24	3	21	18
Nebraska	29	30	32	9	39	11
Nevada	7	25	5	44	5	46
New Hampshire	6	44	9	1	43	45
New Jersey	50	48	48	42	45	32
New Mexico	22	12	36	35	1	9
New York	49	24	50	43	49	40
North Carolina	10	5	17	20	13	10
North Dakota	17	9	27	28	9	7
Ohio	37	39	41	36	6	13
Oklahoma	23	4	31	39	30	1
Oregon	24	49	42	4	20	36
Pennsylvania	33	42	20	16	16	22
Rhode Island	42	40	33	24	41	49
South Carolina	31	6	28	32	35	29
South Dakota	2	1	1	34	14	37
Tennessee	14	45	6	46	33	21
Texas	13	47	7	37	38	12
Utah	8	14	10	22	8	16
Vermont	44	41	39	17	48	17
Virginia	26	17	34	12	29	39
Washington	28	37	8	49	22	25
West Virginia	20	16	29	18	10	26
Wisconsin	27	31	38	7	15	31
Wyoming	1	1	1	6	34	28
District of Columbia	48	29	48	39	49	38

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2022 (the beginning of Fiscal Year 2023).
Source: Tax Foundation.

Louisiana

The Bayou state implemented a package of tax reforms resulting in an improvement of three places on the *Index*, from 42nd to 39th, while improving the state's individual income tax component by nine places and the corporate and property tax components by two places each. Reforms approved by voters in November 2021 yielded the repeal of the deduction for federal taxes paid, replaced by lower statutory tax rates. The top rate of the individual income tax was cut from 6.0 to 4.25 percent, while the state's five corporate income tax brackets were consolidated into three, with a reduction in the top rate from 8 to 7.5 percent. Additionally, the capital stock tax rate was reduced from 0.3 percent to 0.275 percent, with the goal of eventual repeal through tax triggers.

Nebraska

Legislative Bill 432, signed into law in 2021, reduced Nebraska's top marginal corporate income tax rate from 7.81 percent to 7.5 percent on January 1, 2022, and will further reduce the rate to 7.25 percent in January 2023. Additional legislation (LB 873) enacted in 2022 will reduce the state's top marginal individual income tax rate from 6.84 to 5.84 percent over five years, beginning in 2023. This year's corporate tax reduction contributed to Nebraska improving one place overall, from 30th to 29th.

New Mexico

Alone among states, New Mexico used recent revenue growth to facilitate a state sales tax rate reduction, from 5.125 to 5.0 percent. New Mexico's sales tax is a hybrid tax, which the state calls a gross receipts tax, with an overly broad base that includes more business-to-business transactions than most states' sales taxes. Combined with a modest improvement in unemployment insurance taxes relative to changes in other states, this rate cut propelled New Mexico five places on the *Index*, from 27th to 22nd overall.

Oklahoma

In a tax package that may be just the beginning, Oklahoma trimmed its top marginal individual income tax rate from 5 to 4.75 percent, cut the corporate rate from 6 to 4 percent (tied for second lowest), and became the first state to make its full expensing policy permanent. Since Oklahoma already had full expensing, the latter policy does not impact the state's score for now, but with federal bonus depreciation scheduled to phase down beginning in 2023, if other states do not make their own adjustments, their provisions will become less generous while Oklahoma's pro-investment policies remain intact. Oklahoma improved five places on the *Index*, from 28th to 23rd.

South Carolina

South Carolina income tax reforms—retroactive to the first of the year—reduced the top rate from 7.0 to 6.5 percent while consolidating several brackets. The state has long had the highest top rate in the southeast, and while it maintains that distinction under this recent rate reduction, the gap between South Carolina and its neighbors has narrowed. The state improved two places on the *Index*, from 33rd to 31st, with further improvements anticipated in future years as the tax rate continues to phase down.

TABLE 2.

State Business Tax Climate Index (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	40	40	41	38	39	41	40	40	39	4.57	41	4.56	-2	-0.01
Alaska	4	4	3	3	3	3	3	3	3	7.25	3	7.23	0	-0.02
Arizona	27	26	23	24	24	23	22	23	24	5.10	19	5.26	5	0.16
Arkansas	41	42	45	42	43	46	44	46	43	4.50	40	4.57	3	0.07
California	48	48	48	48	49	48	48	48	48	3.58	48	3.56	0	-0.02
Colorado	23	22	21	21	20	18	20	19	20	5.23	21	5.17	-1	-0.06
Connecticut	47	47	47	47	47	47	47	47	47	4.10	47	4.08	0	-0.02
Delaware	18	15	15	22	22	14	15	16	16	5.33	16	5.32	0	-0.01
Florida	5	5	4	4	4	4	4	4	4	6.91	4	6.85	0	-0.06
Georgia	28	30	33	31	30	34	31	28	29	5.01	32	4.99	-3	-0.02
Hawaii	38	38	36	32	33	39	38	38	41	4.53	43	4.51	-2	-0.02
Idaho	15	18	18	18	18	20	19	20	17	5.28	15	5.33	2	0.05
Illinois	33	36	28	25	29	35	36	36	36	4.77	36	4.78	0	0.01
Indiana	10	10	10	9	9	10	10	9	9	5.64	9	5.63	0	-0.01
Iowa	45	45	46	46	46	45	45	42	38	4.67	38	4.66	0	-0.01
Kansas	22	24	26	27	28	31	34	33	23	5.14	25	5.13	-2	-0.01
Kentucky	35	35	34	37	37	19	18	17	18	5.27	18	5.27	0	0.00
Louisiana	32	33	38	45	45	42	43	41	42	4.50	39	4.62	3	0.12
Maine	30	34	35	36	35	28	29	32	34	4.96	35	4.90	-1	-0.06
Maryland	39	39	40	41	40	40	42	44	46	4.25	46	4.28	0	0.03
Massachusetts	26	28	27	28	25	30	35	35	35	4.93	34	4.95	1	0.02
Michigan	11	12	13	13	13	13	12	13	12	5.58	12	5.57	0	-0.01
Minnesota	46	46	44	44	44	44	46	45	45	4.37	45	4.35	0	-0.02
Mississippi	25	27	29	29	27	27	28	30	31	5.00	30	5.00	1	0.00
Missouri	14	16	19	15	15	15	14	11	11	5.60	11	5.59	0	-0.01
Montana	6	6	6	6	6	5	5	5	5	6.07	5	6.08	0	0.01
Nebraska	36	29	30	30	34	25	27	29	30	5.00	29	5.02	1	0.02
Nevada	3	3	5	5	5	6	7	7	6	5.94	7	5.93	-1	-0.01
New Hampshire	8	7	7	7	7	7	6	6	7	5.93	6	5.96	1	0.03
New Jersey	49	49	50	49	50	50	50	50	50	3.36	50	3.37	0	0.01
New Mexico	21	23	24	26	26	24	24	21	27	5.07	22	5.16	5	0.09
New York	50	50	49	50	48	49	49	49	49	3.50	49	3.45	0	-0.05
North Carolina	31	11	12	11	10	11	11	10	10	5.61	10	5.60	0	-0.01
North Dakota	19	19	17	17	17	16	17	18	19	5.26	17	5.29	2	0.03
Ohio	42	41	42	39	41	37	37	37	37	4.72	37	4.72	0	0.00
Oklahoma	20	21	22	20	21	26	26	25	28	5.06	23	5.15	5	0.09
Oregon	9	9	9	10	11	9	8	15	22	5.15	24	5.14	-2	-0.01
Pennsylvania	37	37	37	33	36	36	33	34	32	5.00	33	4.99	-1	-0.01
Rhode Island	44	43	39	40	38	38	39	39	40	4.54	42	4.54	-2	0.00
South Carolina	29	31	31	34	32	32	32	31	33	4.97	31	5.00	2	0.03
South Dakota	2	2	2	2	2	2	2	2	2	7.48	2	7.49	0	0.01
Tennessee	24	25	25	23	23	29	30	26	14	5.45	14	5.44	0	-0.01
Texas	12	13	11	12	12	12	13	12	13	5.55	13	5.51	0	-0.04
Utah	7	8	8	8	8	8	9	8	8	5.64	8	5.64	0	0.00
Vermont	43	44	43	43	42	43	41	43	44	4.47	44	4.44	0	-0.03
Virginia	16	17	20	19	19	21	23	24	25	5.09	26	5.07	-1	-0.02
Washington	13	14	14	14	14	17	16	14	15	5.38	28	5.03	-13	-0.35
West Virginia	17	20	16	16	16	22	21	22	21	5.18	20	5.21	1	0.03
Wisconsin	34	32	32	35	31	33	25	27	26	5.07	27	5.07	-1	0.00
Wyoming	1	1	1	1	1	1	1	1	1	7.77	1	7.76	0	-0.01
District of Columbia	47	48	47	48	48	47	47	48	48	3.86	48	3.75	0	-0.11

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Washington

Washington experienced the worst slide in *Index* ranking this year, falling 13 places from 15th to 28th, primarily due to giving up its status as a state without an income tax. The state adopted a capital gains income tax on high earners that contains a sizeable marriage penalty and is not adjusted for inflation. Washington, with its unenviably aggressive gross receipts tax and high-rate sales tax, has always been buoyed on the *Index* by forgoing an income tax. With the loss of this distinctive, the state plummeted in our rankings.

RECENT AND SCHEDULED CHANGES NOT REFLECTED IN THE 2023 *INDEX*

Georgia

On January 1, 2024, Georgia will transition from a graduated individual income tax with a top rate of 5.75 percent to a flat tax structure with a rate of 5.49 percent. Per HB 1437, the rate could decrease to 4.99 percent by January 1, 2029, if certain revenue conditions are met, paired with substantial increases in personal exemptions.

Indiana

The Hoosier State will cut its flat individual income tax rate from 3.23 to 3.15 percent in 2023. If subsequent triggers are met, the rate could be reduced to 2.9 percent by 2029.

Iowa

In Iowa, a comprehensive tax reform package will see the state's high graduated rate income tax transformed into a flat tax of 3.9 percent, with the corporate income tax declining to 5.5 percent, among other reforms. These changes are not in effect in 2022, though 2023 will usher in a consolidation of the income tax to four brackets with a top marginal rate of 6.0 percent, heading toward a flat rate tax in 2026. These changes, which accelerate and build upon two previous rounds of tax reform, will dramatically improve Iowa's ranking.

Kentucky

With the passage of HB 8, Kentucky will use revenue triggers to reduce its individual income tax by 0.5 percentage points in years in which the triggers are met. The use of these triggers could theoretically lead to the phaseout of the individual income tax in its entirety. However, even absent the elimination of the tax, rate reductions will bolster Kentucky's score in future years.

Mississippi

Under HB 531, Mississippi will eliminate its current 4 percent individual income tax bracket on January 1, 2023. This will transition the state from a graduated income tax structure to a flat rate of 5 percent. The flat rate is scheduled to decrease to 4.7 percent in 2024, 4.4 percent in 2025, and finally 4 percent in 2026.

Montana

Montana adopted structural reforms to both its individual and corporate income taxes in 2021, with the individual income tax rate seeing a modest reduction on January 1, 2022, which was not enough to change the state's rank on the *Index*—particularly given similar or larger cuts in many other states. In 2024, however, the seven brackets will be consolidated into two with a top rate of 6.5 percent, which is likely to yield a favorable ranking change. Although the lowest rate will rise to 4.7 percent in 2024, conforming to the federal standard deduction in 2025 will yield tax savings for lower-income taxpayers. This law also doubles the bracket widths for married filers, thereby removing the marriage penalty that currently exists in the state's income tax code.

New Hampshire

Currently, New Hampshire is the only state that does not impose a tax on wage or salary income but does levy a tax on interest and dividend income. Beginning in tax year 2023, the state will phase out this interest and dividends tax by one percentage point per year until it is fully repealed by 2027. This year, the state reduced the Business Profits Tax (BPT) from 7.7 to 7.6 percent and the Business Enterprise Tax (BET, a value-added tax) from 0.6 to 0.55 percent, though these changes were insufficient to result in an improvement in the state's rank. The BPT will decline further, to 7.5 percent, in 2024.

Pennsylvania

Under legislation paired with the state budget, Pennsylvania will reduce the corporate net income tax rate from 9.99 percent to 8.99 percent on January 1, 2023. Each year thereafter the rate will decrease 0.5 percentage points until it reaches 4.99 percent at the beginning of 2031, transforming the nation's second-highest corporate income tax rate into something much more competitive.

INTRODUCTION

Taxation is inevitable, but the specifics of a state's tax structure matter greatly. The measure of total taxes paid is relevant, but other elements of a state tax system can also enhance or harm the competitiveness of a state's business environment. The *State Business Tax Climate Index* distills many complex considerations to an easy-to-understand ranking.

The modern market is characterized by mobile capital and labor, with all types of businesses, small and large, tending to locate where they have the greatest competitive advantage. The evidence shows that states with the best tax systems will be the most competitive at attracting new businesses and most effective at generating economic and employment growth. It is true that taxes are but one factor in business decision-making. Other concerns also matter–such as access to raw materials or infrastructure or a skilled labor pool–but a simple, sensible tax system can positively impact business operations with regard to these resources. Furthermore, unlike changes to a state's health-care, transportation, or education systems, which can take decades to implement, changes to the tax code can quickly improve a state's business climate.

It is important to remember that even in our global economy, states' stiffest competition often comes from other states. The Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to a foreign location.[1] Certainly, job creation is rapid overseas, as previously underdeveloped nations enter the world economy, though in the aftermath of federal tax reform, U.S.

1 See U.S. Department of Labor, "Extended Mass Layoffs, First Quarter 2013," Table 10, May 13, 2013.

businesses no longer face the third-highest corporate tax rate in the world, but rather one in line with averages for industrialized nations.[2] State lawmakers are right to be concerned about how their states rank in the global competition for jobs and capital, but they need to be more concerned with companies moving from Detroit, Michigan, to Dayton, Ohio, than from Detroit to New Delhi, India. This means that state lawmakers must be aware of how their states' business climates match up against their immediate neighbors and to other regional competitor states.

Anecdotes about the impact of state tax systems on business investment are plentiful. In Illinois early last decade, hundreds of millions of dollars of capital investments were delayed when then-Governor Rod Blagojevich (D) proposed a hefty gross receipts tax.[3] Only when the legislature resoundingly defeated the bill did the investment resume. In 2005, California-based Intel decided to build a multibillion-dollar chip-making facility in Arizona due to its favorable corporate income tax system.[4] In 2010, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.[5] In 2015, General Electric and Aetna threatened to decamp from Connecticut if the governor signed a budget that would increase corporate tax burdens, and General Electric actually did so.[6] Anecdotes such as these reinforce what we know from economic theory: taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

Tax competition is an unpleasant reality for state revenue and budget officials, but it is an effective restraint on state and local taxes. When a state imposes higher taxes than a neighboring state, businesses will cross the border to some extent. Therefore, states with more competitive tax systems score well in the *Index* because they are best suited to generate economic growth.

State lawmakers are mindful of their states' business tax climates, but they are sometimes tempted to lure business with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, as the example of Dell Computers and North Carolina illustrates. North Carolina agreed to $240 million worth of incentives to lure Dell to the state. Many of the incentives came in the form of tax credits from the state and local governments. Unfortunately, Dell announced in 2009 that it would be closing the plant after only four years of operations.[7] A 2007 *USA TODAY* article chronicled similar problems other states have had with companies that receive generous tax incentives.[8]

Lawmakers make these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for an undesirable business tax climate. A far more effective approach is the systematic improvement of the state's business tax climate for the long term to improve

2 Daniel Bunn, "Corporate Income Tax Rates Around the World, 2018," Tax Foundation, Nov. 27, 2018, https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/.
3 Editorial, "Scale it back, Governor," *Chicago Tribune*, March 23, 2007.
4 Ryan Randazzo, Edythe Jenson, and Mary Jo Pitzl, "Cathy Carter Blog: Chandler getting new $5 billion Intel facility," AZCentral.com, Mar. 6, 2013.
5 Dana Hedgpeth and Rosalind Helderman, "Northrop Grumman decides to move headquarters to Northern Virginia," *The Washington Post*, April 27, 2010.
6 Susan Haigh, "Connecticut House Speaker: Tax 'mistakes' made in budget," Associated Press, Nov. 5, 2015.
7 Austin Mondine, "Dell cuts North-Carolina plant despite $280m sweetener," TheRegister.co.uk, Oct. 8, 2009.
8 Dennis Cauchon, "Business Incentives Lose Luster for States," *USA TODAY*, Aug. 22, 2007.

the state's competitiveness. When assessing which changes to make, lawmakers need to remember two rules:

1. **Taxes matter to business.** Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), employees (through lower wages or fewer jobs), shareholders (through lower dividends or share value), or some combination of the above. Thus, a state with lower tax costs will be more attractive to business investment and more likely to experience economic growth.

2. **States do not enact tax changes (increases or cuts) in a vacuum.** Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its region, and even globally. Ultimately, it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

To some extent, tax-induced economic distortions are a fact of life, but policymakers should strive to maximize the occasions when businesses and individuals are guided by business principles and minimize those cases where economic decisions are influenced, micromanaged, or even dictated by a tax system. The more riddled a tax system is with politically motivated preferences, the less likely it is that business decisions will be made in response to market forces. The *Index* rewards those states that minimize tax-induced economic distortions.

Ranking the competitiveness of 50 very different tax systems presents many challenges, especially when a state dispenses with a major tax entirely. Should Indiana's tax system, which includes three relatively neutral taxes on sales, individual income, and corporate income, be considered more or less competitive than Alaska's tax system, which includes a particularly burdensome corporate income tax but no statewide tax on individual income or sales?

The *Index* deals with such questions by comparing the states on more than 120 variables in the five major areas of taxation (corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes, and property taxes) and then adding the results to yield a final, overall ranking. This approach rewards states on particularly strong aspects of their tax systems (or penalizes them on particularly weak aspects), while measuring the general competitiveness of their overall tax systems. The result is a score that can be compared to other states' scores. Ultimately, both Alaska and Indiana score well.

Literature Review

Economists have not always agreed on how individuals and businesses react to taxes. As early as 1956, Charles Tiebout postulated that if citizens were faced with an array of communities that offered different types or levels of public goods and services at different costs or tax levels, then all citizens would choose the community that best satisfied their particular demands, revealing their preferences by "voting with their feet." Tiebout's article is the seminal work on the topic of how taxes affect the location decisions of taxpayers.

Tiebout suggested that citizens with high demands for public goods would concentrate in communities with high levels of public services and high taxes while those with low demands would choose communities with low levels of public services and low taxes. Competition among jurisdictions results in a variety of communities, each with residents who all value public services similarly.

However, businesses sort out the costs and benefits of taxes differently from individuals. For businesses, which can be more mobile and must earn profits to justify their existence, taxes reduce profitability. Theoretically, businesses could be expected to be more responsive than individuals to the lure of low-tax jurisdictions. Research suggests that corporations engage in "yardstick competition," comparing the costs of government services across jurisdictions. Shleifer (1985) first proposed comparing regulated franchises in order to determine efficiency. Salmon (1987) extended Shleifer's work to look at subnational governments. Besley and Case (1995) showed that "yardstick competition" affects voting behavior, and Bosch and Sole-Olle (2006) further confirmed the results found by Besley and Case. Tax changes that are out of sync with neighboring jurisdictions will impact voting behavior.

The economic literature over the past 50 years has slowly cohered around this hypothesis. Ladd (1998) summarizes the post-World War II empirical tax research literature in an excellent survey article, breaking it down into three distinct periods of differing ideas about taxation: (1) taxes do not change behavior; (2) taxes may or may not change business behavior depending on the circumstances; and (3) taxes definitely change behavior.

Period one, with the exception of Tiebout, included the 1950s, 1960s, and 1970s and is summarized succinctly in three survey articles: Due (1961), Oakland (1978), and Wasylenko (1981). Due's was a polemic against tax giveaways to businesses, and his analytical techniques consisted of basic correlations, interview studies, and the examination of taxes relative to other costs. He found no evidence to support the notion that taxes influence business location. Oakland was skeptical of the assertion that tax differentials at the local level had no influence at all. However, because econometric analysis was relatively unsophisticated at the time, he found no significant articles to support his intuition. Wasylenko's survey of the literature found some of the first evidence indicating that taxes do influence business location decisions. However, the statistical significance was lower than that of other factors such as labor supply and agglomeration economies. Therefore, he dismissed taxes as a secondary factor at most.

Period two was a brief transition during the early- to mid-1980s. This was a time of great ferment in tax policy as Congress passed major tax bills, including the so-called Reagan tax cut in 1981 and a dramatic reform of the federal tax code in 1986. Articles revealing the economic significance of tax policy proliferated and became more sophisticated. For example, Wasylenko and McGuire (1985) extended the traditional business location literature to nonmanufacturing sectors and found, "Higher wages, utility prices, personal income tax rates, and an increase in the overall level of taxation discourage employment growth in several industries." However, Newman and Sullivan (1988) still found a mixed bag in "their observation that significant tax effects [only] emerged when models were carefully specified."

Ladd was writing in 1998, so her "period three" started in the late 1980s and continued up to 1998, when the quantity and quality of articles increased significantly. Articles that fit into period three begin to surface as early as 1985, as Helms (1985) and Bartik (1985) put forth forceful arguments based on empirical research that taxes guide business decisions. Helms concluded that a state's ability to attract, retain, and encourage business activity is significantly affected by its pattern of taxation. Furthermore, tax increases significantly retard economic growth when the revenue is used to fund transfer payments. Bartik concluded that the conventional view that state and local taxes have little effect on business is false.

Papke and Papke (1986) found that tax differentials among locations may be an important business location factor, concluding that consistently high business taxes can represent a hindrance to the location of industry. Interestingly, they use the same type of after-tax model used by Tannenwald (1996), who reaches a different conclusion.

Bartik (1989) provides strong evidence that taxes have a negative impact on business start-ups. He finds specifically that property taxes, because they are paid regardless of profit, have the strongest negative effect on business. Bartik's econometric model also predicts tax elasticities of -0.1 to -0.5 that imply a 10 percent cut in tax rates will increase business activity by 1 to 5 percent. Bartik's findings, as well as those of Mark, McGuire, and Papke (2000), and ample anecdotal evidence of the importance of property taxes, buttress the argument for inclusion of a property index devoted to property-type taxes in the *Index*.

By the early 1990s, the literature had expanded sufficiently for Bartik (1991) to identify 57 studies on which to base his literature survey. Ladd succinctly summarizes Bartik's findings:

> The large number of studies permitted Bartik to take a different approach from the other authors. Instead of dwelling on the results and limitations of each individual study, he looked at them in the aggregate and in groups. Although he acknowledged potential criticisms of individual studies, he convincingly argued that some systematic flaw would have to cut across all studies for the consensus results to be invalid. In striking contrast to previous reviewers, he concluded that taxes have quite large and significant effects on business activity.

Ladd's "period three" surely continues to this day. Agostini and Tulayasathien (2001) examined the effects of corporate income taxes on the location of foreign direct investment in U.S. states. They determined that for "foreign investors, the corporate tax rate is the most relevant tax in their investment decision." Therefore, they found that foreign direct investment was quite sensitive to states' corporate tax rates.

Mark, McGuire, and Papke (2000) found that taxes are a statistically significant factor in private-sector job growth. Specifically, they found that personal property taxes and sales taxes have economically large negative effects on the annual growth of private employment.

Harden and Hoyt (2003) point to Phillips and Gross (1995) as another study contending that taxes impact state economic growth, and they assert that the consensus among recent literature is that state and local taxes negatively affect employment levels. Harden and Hoyt conclude that the corporate income tax has the most significant negative impact on the rate of growth in employment.

Gupta and Hofmann (2003) regressed capital expenditures against a variety of factors, including weights of apportionment formulas, the number of tax incentives, and burden figures. Their model covered 14 years of data and determined that firms tend to locate property in states where they are subject to lower income tax burdens. Furthermore, Gupta and Hofmann suggest that throwback requirements are the most influential on the location of capital investment, followed by apportionment weights and tax rates, and that investment-related incentives have the least impact.

Other economists have found that taxes on specific products can produce behavioral results similar to those that were found in these general studies. For example, Fleenor (1998) looked at the effect of excise tax differentials between states on cross-border shopping and the smuggling of cigarettes. Moody and Warcholik (2004) examined the cross-border effects of beer excises. Their results, supported by the literature in both cases, showed significant cross-border shopping and smuggling between low-tax states and high-tax states.

Fleenor found that shopping areas sprouted in counties of low-tax states that shared a border with a high-tax state, and that approximately 13.3 percent of the cigarettes consumed in the United States during FY 1997 were procured via some type of cross-border activity. Similarly, Moody and Warcholik found that in 2000, 19.9 million cases of beer, on net, moved from low- to high-tax states. This amounted to some $40 million in sales and excise tax revenue lost in high-tax states.

Although the literature has largely congealed around a general consensus that taxes are a substantial factor in the decision-making process for businesses, disputes remain, and some scholars are unconvinced.

Based on a substantial review of the literature on business climates and taxes, Wasylenko (1997) concludes that taxes do not appear to have a substantial effect on economic activity among states. However, his conclusion is premised on there being few significant differences in state tax systems. He concedes that high-tax states will lose economic activity to average or low-tax states "as long as the elasticity is negative and significantly different from zero." Indeed, he approvingly cites a State Policy Reports article that finds that the highest-tax states, such as Minnesota, Wisconsin, and New York, have acknowledged that high taxes may be responsible for the low rates of job creation in those states.[9]

Wasylenko's rejoinder is that policymakers routinely overestimate the degree to which tax policy affects business location decisions and that as a result of this misperception, they respond readily to public pressure for jobs and economic growth by proposing lower taxes. According to Wasylenko, other legislative actions are likely to accomplish more positive economic results because in reality, taxes do not drive economic growth.

However, there is ample evidence that states compete for businesses using their tax systems. A recent example comes from Illinois, where in early 2011 lawmakers passed two major tax increases. The individual income tax rate increased from 3 percent to 5 percent, and the corporate income tax rate rose from 7.3 percent to 9.5 percent.[10] The result was that many businesses threatened to leave the state, including some very high-profile Illinois companies such as Sears and the Chicago Mercantile Exchange. By the end of the year, lawmakers had cut deals with both firms, totaling $235 million over the next decade, to keep them from leaving the state.[11]

A new literature review, Kleven et al. (2019), summarizes recent evidence for tax-driven migration. Meanwhile, Giroud and Rauh (2019) use microdata on multistate firms to estimate the impact of state taxes on business activity, and find that C corporation employment and establishments have short-run corporate tax elasticities of -0.4 to -0.5, while pass-through entities show elasticities of -0.2 to -0.4, meaning that, for each percentage-point increase in the rate, employment decreases by 0.4 to 0.5 percent for C corporations subject to the corporate income tax, and by 0.2 to 0.4 percent within pass-through businesses subject to the individual income tax.

Measuring the Impact of Tax Differentials

Some recent contributions to the literature on state taxation criticize business and tax climate studies in general.[12] Authors of such studies contend that comparative reports like the *State Business Tax Climate Index* do not take into account those factors which directly impact a state's business climate. However, a careful examination of these criticisms reveals that the authors believe taxes are unimportant to businesses and therefore dismiss the studies as merely being designed to advocate low taxes.

9 *State Policy Reports*, Vol. 12, No. 11, Issue 1, p. 9, June 1994.

10 Both rate increases had a temporary component and were allowed to partially expire before legislators overrode a gubernatorial veto to increase rates above where they would have been should they have been allowed to sunset.

11 Benjamin Yount, "Tax increase, impact, dominate Illinois Capitol in 2011," *Illinois Statehouse News*, Dec. 27, 2011.

12 A trend in tax literature throughout the 1990s was the increasing use of indices to measure a state's general business climate. These include the Center for Policy and Legal Studies' *Economic Freedom in America's 50 States: A 1999 Analysis* and the Beacon Hill Institute's *State Competitiveness Report 2001*. Such indexes even exist on the international level, including the Heritage Foundation and *The Wall Street Journal*'s *2004 Index of Economic Freedom*. Plaut and Pluta (1983) examined the use of business climate indices as explanatory variables for business location movements. They found that such general indices do have a significant explanatory power, helping to explain, for example, why businesses have moved from the Northeast and Midwest toward the South and Southwest. In turn, they also found that high taxes have a negative effect on employment growth.

Peter Fisher's *Grading Places: What Do the Business Climate Rankings Really Tell Us?* now published by Good Jobs First, criticizes four indices: The *U.S. Business Policy Index* published by the Small Business and Entrepreneurship Council, Beacon Hill's *Competitiveness Report*, the American Legislative Exchange Council's *Rich States, Poor States*, and this study. The first edition also critiqued the Cato Institute's F*iscal Policy Report Card* and the *Economic Freedom Index* by the Pacific Research Institute. In the report's first edition, published before Fisher summarized his objections: "The underlying problem with the … indexes, of course, is twofold: none of them actually do a very good job of measuring what it is they claim to measure, and they do not, for the most part, set out to measure the right things to begin with" (Fisher 2005). In the second edition, he identified three overarching questions: (1) whether the indices included relevant variables, and only relevant variables; (2) whether these variables measured what they purport to measure; and (3) how the index combines these measures into a single index number (Fisher 2013). Fisher's primary argument is that if the indexes did what they purported to do, then all five would rank the states similarly.

Fisher's conclusion holds little weight because the five indices serve such dissimilar purposes, and each group has a different area of expertise. There is no reason to believe that the Tax Foundation's *Index*, which depends entirely on state tax laws, would rank the states in the same or similar order as an index that includes crime rates, electricity costs, and health care (the Small Business and Entrepreneurship Council's *Small Business Survival Index*), or infant mortality rates and the percentage of adults in the workforce (Beacon Hill's State Competitiveness Report), or charter schools, tort reform, and minimum wage laws (the Pacific Research Institute's *Economic Freedom Index*).

The Tax Foundation's *State Business Tax Climate Index* is an indicator of which states' tax systems are the most hospitable to business and economic growth. The *Index* does not purport to measure economic opportunity or freedom, or even the broad business climate, but rather the narrower business tax climate, and its variables reflect this focus. We do so not only because the Tax Foundation's expertise is in taxes, but because every component of the *Index* is subject to immediate change by state lawmakers. It is by no means clear what the best course of action is for state lawmakers who want to thwart crime, for example, either in the short or long term, but they can change their tax codes now. Contrary to Fisher's 1970s view that the effects of taxes are "small or non-existent," our study reflects strong evidence that business decisions are significantly impacted by tax considerations.

Although Fisher does not feel tax climates are important to states' economic growth, other authors contend the opposite. Bittlingmayer, Eathington, Hall, and Orazem (2005) find in their analysis of several business climate studies that a state's tax climate does affect its economic growth rate and that several indices are able to predict growth. Specifically, they concluded, "The *State Business Tax Climate Index* explains growth consistently." This finding was confirmed by Anderson (2006) in a study for the Michigan House of Representatives, and more recently by Kolko, Neumark, and Mejia (2013), who, in an analysis of the ability of 10 business climate indices to predict economic growth, concluded that the *State Business Tax Climate Index* yields "positive, sizable, and statistically significant estimates for every specification" they measured, and specifically cited the *Index* as one of two business climate indices (out of 10) with particularly strong and robust evidence of predictive power.

Bittlingmayer et al. also found that relative tax competitiveness matters, especially at the borders, and therefore, indices that place a high premium on tax policies do a better job of explaining growth. They also observed that studies focused on a single topic do better at explaining economic growth at borders. Lastly, the article concludes that the most important elements of the business climate are tax and regulatory burdens on business (Bittlingmayer et al. 2005). These findings support the argument that taxes impact business decisions and economic growth, and they support the validity of the *Index*.

Fisher and Bittlingmayer et al. hold opposing views about the impact of taxes on economic growth. Fisher finds support from Robert Tannenwald, formerly of the Boston Federal Reserve, who argues that taxes are not as important to businesses as public expenditures. Tannenwald compares 22 states by measuring the after-tax rate of return to cash flow of a new facility built by a representative firm in each state. This very different approach attempts to compute the marginal effective tax rate of a hypothetical firm and yields results that make taxes appear trivial.

The taxes paid by businesses should be a concern to everyone because they are ultimately borne by individuals through lower wages, increased prices, and decreased shareholder value. States do not institute tax policy in a vacuum. Every change to a state's tax system makes its business tax climate more or less competitive compared to other states and makes the state more or less attractive to business. Ultimately, anecdotal and empirical evidence, along with the cohesion of recent literature around the conclusion that taxes matter a great deal to business, show that the *Index* is an important and useful tool for policymakers who want to make their states' tax systems welcoming to business.

METHODOLOGY

The Tax Foundation's *State Business Tax Climate Index* is a hierarchical structure built from five components:

- **Individual Income Tax**
- **Sales Tax**
- **Corporate Income Tax**
- **Property Tax**
- **Unemployment Insurance Tax**

Using the economic literature as our guide, we designed these five components to score each state's business tax climate on a scale of 0 (worst) to 10 (best). Each component is devoted to a major area of state taxation and includes numerous variables. Overall, there are 125 variables measured in this report.

The five components are not weighted equally, as they are in some indices. Rather, each component is weighted based on the variability of the 50 states' scores from the mean. The standard deviation of each component is calculated and a weight for each component is created from that measure. The result is a heavier weighting of those components with greater variability. The weighting of each of the five major components is:

30.6% — Individual Income Tax
23.5% — Sales Tax
21.1% — Corporate Tax
15.0% — Property Tax
9.8% — Unemployment Insurance Tax

This improves the explanatory power of the *State Business Tax Climate Index* as a whole because components with higher standard deviations are those areas of tax law where some states have significant competitive advantages. Businesses that are comparing states for new or expanded locations must give greater emphasis to tax climates when the differences are large. On the other hand, components in which the 50 state scores are clustered together, closely distributed around the mean, are those areas of tax law where businesses are more likely to de-emphasize tax factors in their location decisions. For example, Delaware is known to have a significant advantage in sales tax competition, because its tax rate of zero attracts businesses and shoppers from all over the Mid-Atlantic region. That advantage and its drawing power increase every time another state raises its sales tax.

In contrast with this variability in state sales tax rates, unemployment insurance tax systems are similar around the nation, so a small change in one state's law could change its component ranking dramatically.

Within each component are two equally weighted subindices devoted to measuring the impact of the tax rates and the tax bases. Each subindex is composed of one or more variables. There are two types of variables: scalar variables and dummy variables. A scalar variable is one that can have any value between 0 and 10. If a subindex is composed only of scalar variables, then they are weighted equally. A dummy variable is one that has only a value of 0 or 1. For example, a state either indexes its brackets for inflation or does not. Mixing scalar and dummy variables within a subindex is problematic because the extreme valuation of a dummy can overly influence the results of the subindex. To counter this effect, the *Index* generally weights scalar variables at 80 percent and dummy variables at 20 percent.

Relative versus Absolute Indexing

The *State Business Tax Climate Index* is designed as a relative index rather than an absolute or ideal index. In other words, each variable is ranked relative to the variable's range in other states. The relative scoring scale is from 0 to 10, with zero meaning not "worst possible" but rather worst among the 50 states.

Many states' tax rates are so close to each other that an absolute index would not provide enough information about the differences among the states' tax systems, especially for pragmatic business owners who want to know which states have the best tax system in each region.

Comparing States without a Tax. One problem associated with a relative scale is that it is mathematically impossible to compare states with a given tax to states that do not have the tax. As a zero rate is the lowest possible rate and the most neutral base, since it creates the most favorable tax climate for economic growth, those states with a zero rate on individual income, corporate income, or sales gain an immense competitive advantage. Therefore, states without a given tax generally receive a 10, and the *Index* measures all the other states against each other.

Three notable exceptions to this rule exist. The first is in Washington, Tennessee, and Texas, which do not have taxes on wage income but do apply their gross receipts taxes to S corporations. (Washington and Texas also apply these to limited liability corporations.) Because these entities are generally taxed through the individual code, these three states do not score perfectly in the individual income tax component. The second exception is found in Nevada, where a payroll tax (for purposes other than unemployment insurance) is also included in the individual income tax component. The final exception is in zero sales tax states–Alaska, Montana, New Hampshire, Oregon, and Delaware–which do not have general sales taxes but still do not score a perfect 10 in that component section because of excise taxes on gasoline, beer, spirits, and cigarettes, which are included in that section. Alaska, moreover, forgoes a state sales tax, but does permit local option sales taxes.

Normalizing Final Scores. Another problem with using a relative scale within the components is that the average scores across the five components vary. This alters the value of not having a given tax across major indices. For example, the unadjusted average score of the corporate income tax component is 6.70 while the average score of the sales tax component is 5.40.

In order to solve this problem, scores on the five major components are "normalized," which brings the average score for all of them to 5.00, excluding states that do not have the given tax. This is accomplished by multiplying each state's score by a constant value.

Once the scores are normalized, it is possible to compare states across indices. For example, because of normalization, it is possible to say that Connecticut's score of 5.10 on corporate income taxes is better than its score of 4.80 on the sales tax.

Time Frame Measured by the *Index* (Snapshot Date)

Starting with the 2006 edition, the *Index* has measured each state's business tax climate as it stands at the beginning of the standard state fiscal year, July 1. Therefore, this edition is the 2023 *Index* and represents the tax climate of each state as of July 1, 2022, the first day of fiscal year 2023 for most states.

District of Columbia

The District of Columbia (D.C.) is only included as an exhibit and its scores and "phantom ranks" offered do not affect the scores or ranks of other states.

Past Rankings and Scores

This report includes 2014-2022 *Index* rankings that can be used for comparison with the 2023 rankings and scores. These can differ from previously published *Index* rankings and scores due to the enactment of retroactive statutes, backcasting of the above methodological changes, and corrections to variables brought to our attention since the last report was published. The scores and rankings in this report are definitive.

CORPORATE TAX

This component measures the impact of each state's principal tax on business activities and accounts for 21.1 percent of each state's total score. It is well established that the extent of business taxation can affect a business's level of economic activity within a state. For example, Newman (1982) found that differentials in state corporate income taxes were a major factor influencing the movement of industry to Southern states. Two decades later, with global investment greatly expanded, Agostini and Tulayasathien (2001) determined that a state's corporate tax rate is the most relevant tax in the investment decisions of foreign investors.

Most states levy standard corporate income taxes on profit (gross receipts minus expenses). Some states, however, problematically impose taxes on the gross receipts of businesses with few or no deductions for expenses. Between 2005 and 2010, for example, Ohio phased in the Commercial Activities Tax (CAT), which has a rate of 0.26 percent. Washington has the Business and Occupation (B&O) Tax, which is a multi-rate tax (depending on industry) on the gross receipts of Washington businesses. Delaware has a similar Manufacturers' and Merchants' License Tax, as does Tennessee with its Business Tax, Virginia with its locally-levied Business/Professional/Occupational License (BPOL) tax, and West Virginia with its local Business & Occupation (B&O) tax. Texas also added the Margin Tax, a complicated gross receipts tax, in 2007, Nevada adopted the gross receipts-based multi-rate Commerce Tax in 2015, and Oregon implemented a new modified gross receipts tax in 2020. However, in 2011, Michigan passed a significant corporate tax reform that eliminated the state's modified gross receipts tax and replaced it with a 6 percent corporate income tax, effective January 1, 2012.[13] The previous tax had been in place since 2007, and Michigan's repeal followed others in Kentucky (2006) and New Jersey (2006). Several states contemplated gross receipts taxes in 2017, but none were adopted.

13 See Mark Robyn, "Michigan Implements Positive Corporate Tax Reform," Tax Foundation, Feb. 10, 2012.

TABLE 3.

Corporate Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	24	22	14	21	22	23	23	17	5.53	18	5.52	-1	-0.01
Alaska	25	26	26	25	26	25	25	25	27	5.10	28	5.09	-1	-0.01
Arizona	22	22	20	19	14	16	21	22	23	5.31	23	5.29	0	-0.02
Arkansas	36	36	38	38	38	39	33	33	29	4.90	29	4.96	0	0.06
California	29	31	33	32	31	37	27	27	46	4.06	46	4.05	0	-0.01
Colorado	19	13	15	18	18	6	7	9	6	6.03	7	6.00	-1	-0.03
Connecticut	27	29	31	31	30	33	26	26	26	5.10	27	5.09	-1	-0.01
Delaware	50	50	50	50	50	50	50	50	50	2.41	50	2.41	0	0.00
Florida	13	14	16	19	19	11	9	6	7	5.99	10	5.77	-3	-0.22
Georgia	9	10	10	11	10	8	6	7	8	5.92	8	5.90	0	-0.02
Hawaii	5	5	4	6	11	12	17	19	19	5.48	19	5.46	0	-0.02
Idaho	17	21	21	23	23	27	28	28	28	5.02	26	5.10	2	0.08
Illinois	43	44	32	24	35	36	35	35	38	4.48	38	4.47	0	-0.01
Indiana	28	27	23	22	22	19	11	12	11	5.75	11	5.74	0	-0.01
Iowa	48	48	48	48	48	46	48	46	33	4.86	34	4.85	-1	-0.01
Kansas	35	35	37	37	37	31	34	30	21	5.39	21	5.38	0	-0.01
Kentucky	24	25	25	26	24	15	13	15	15	5.62	15	5.60	0	-0.02
Louisiana	16	20	35	39	39	34	36	34	34	4.76	32	4.87	2	0.11
Maine	41	42	41	40	40	32	37	36	35	4.59	35	4.58	0	-0.01
Maryland	14	15	17	21	20	26	31	32	32	4.87	33	4.86	-1	-0.01
Massachusetts	32	34	36	35	34	38	38	37	36	4.56	36	4.55	0	-0.01
Michigan	8	8	8	9	8	13	18	20	20	5.44	20	5.42	0	-0.02
Minnesota	40	40	42	42	41	43	45	43	43	4.15	43	4.13	0	-0.02
Mississippi	10	11	12	12	12	14	10	13	13	5.66	13	5.64	0	-0.02
Missouri	4	4	3	5	5	4	3	3	3	6.79	3	6.77	0	-0.02
Montana	15	16	18	13	13	9	20	21	22	5.35	22	5.34	0	-0.01
Nebraska	34	28	27	27	27	28	30	31	31	4.88	30	4.92	1	0.04
Nevada	1	1	24	33	32	21	24	24	25	5.19	25	5.18	0	-0.01
New Hampshire	47	47	47	47	43	45	42	44	44	4.10	44	4.10	0	0.00
New Jersey	37	37	39	41	44	49	49	48	48	3.51	48	3.50	0	-0.01
New Mexico	33	33	30	29	25	23	22	11	12	5.74	12	5.72	0	-0.02
New York	21	19	11	8	7	18	14	16	24	5.21	24	5.19	0	-0.02
North Carolina	26	23	7	4	3	3	4	4	4	6.17	5	6.15	-1	-0.02
North Dakota	20	18	14	16	16	17	19	8	9	5.91	9	5.90	0	-0.01
Ohio	45	43	46	46	47	42	41	40	39	4.44	39	4.43	0	-0.01
Oklahoma	11	9	9	10	9	20	8	10	10	5.82	4	6.20	6	0.38
Oregon	30	32	34	34	33	29	32	49	49	2.80	49	2.79	0	-0.01
Pennsylvania	42	41	43	43	42	44	44	42	42	4.16	42	4.15	0	-0.01
Rhode Island	38	38	29	30	29	35	40	39	40	4.41	40	4.39	0	-0.02
South Carolina	12	12	13	15	15	5	5	5	5	6.07	6	6.05	-1	-0.02
South Dakota	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	44	45	44	44	45	48	47	45	45	4.08	45	4.07	0	-0.01
Texas	49	49	49	49	49	47	46	47	47	4.00	47	3.98	0	-0.02
Utah	6	6	5	3	4	7	12	14	14	5.63	14	5.63	0	0.00
Vermont	39	39	40	36	36	40	43	41	41	4.33	41	4.31	0	-0.02
Virginia	7	7	6	7	6	10	15	17	16	5.56	17	5.54	-1	-0.02
Washington	46	46	45	45	46	41	39	38	37	4.49	37	4.47	0	-0.02
West Virginia	18	17	19	17	17	24	16	18	18	5.48	16	5.60	2	0.12
Wisconsin	31	30	28	28	28	30	29	29	30	4.89	31	4.88	-1	-0.01
Wyoming	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	37	37	37	26	26	24	27	27	28	5.05	29	5.04	-1	-0.01

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Since gross receipts taxes and corporate income taxes are levied on different bases, we separately compare gross receipts taxes to each other, and corporate income taxes to each other, in the *Index*.

For states with corporate income taxes, the corporate tax rate subindex is calculated by assessing three key areas: the top tax rate, the level of taxable income at which the top rate kicks in, and the number of brackets. States that levy neither a corporate income tax nor a gross receipts tax achieve a perfectly neutral system in regard to business income and thus receive a perfect score.

States that do impose a corporate tax generally will score well if they have a low rate. States with a high rate or a complex and multiple-rate system score poorly.

To calculate the parallel subindex for the corporate tax base, three broad areas are assessed: tax credits, treatment of net operating losses, and an "other" category that includes variables such as conformity to the Internal Revenue Code, protections against double taxation, and the taxation of "throwback" income, among others. States that score well on the corporate tax base subindex generally will have few business tax credits, generous carryback and carryforward provisions, deductions for net operating losses, conformity to the Internal Revenue Code, and provisions that alleviate double taxation.

Corporate Tax Rate

The corporate tax rate subindex is designed to gauge how a state's corporate income tax top marginal rate, bracket structure, and gross receipts rate affect its competitiveness compared to other states, as the extent of taxation can affect a business's level of economic activity within a state (Newman 1982).

A state's corporate tax is levied in addition to the federal corporate income tax of 21 percent, substantially reduced by the Tax Cuts and Jobs Act of 2017 from a graduated-rate tax with a top rate of 35 percent, the highest rate among industrialized nations. Two states levy neither a corporate income tax nor a gross receipts tax: South Dakota and Wyoming. These states automatically score a perfect 10 on this subindex. Therefore, this section ranks the remaining 48 states relative to each other.

Top Tax Rate. New Jersey's 11.5 percent rate (including a temporary and retroactive surcharge from 2020 to 2023) qualifies for the worst ranking among states that levy one, followed by Pennsylvania's 9.99 percent rate. Other states with comparatively high corporate income tax rates are Iowa and Minnesota (both at 9.8 percent), Alaska (9.4 percent), Maine (8.93 percent), and California (8.84 percent). By contrast, North Carolina's rate of 2.5 percent is the lowest nationally, followed by Missouri's and Oklahoma's (both at 4 percent), North Dakota's at 4.31 percent, and Florida's at 4.458 percent. Other states with comparatively low top corporate tax rates are Colorado (4.55 percent), Arizona and Indiana (both at 4.9 percent), Utah (4.95 percent), and Kentucky, Mississippi, and South Carolina, all at 5 percent.

Graduated Rate Structure. Two variables are used to assess the economic drag created by multiple-rate corporate income tax systems: the income level at which the highest tax rate starts to apply and the number of tax brackets. Twenty-nine states and the District of Columbia have single-rate systems, and they score best. Single-rate systems are consistent with the sound tax principles of simplicity and neutrality. In contrast to the individual income tax, there is no meaningful "ability to pay" concept in corporate taxation. Jeffery Kwall, the Kathleen and Bernard Beazley Professor of Law at Loyola University Chicago School of Law, notes that

> graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners. Indeed, low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes.[14]

A single-rate system minimizes the incentive for firms to engage in expensive, counterproductive tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.

The Top Bracket. This variable measures how soon a state's tax system applies its highest corporate income tax rate. The highest score is awarded to a single-rate system that has one bracket that applies to the first dollar of taxable income. Next best is a two-bracket system where the top rate kicks in at a low level of income, since the lower the top rate kicks in, the more the system is like a flat tax. States with multiple brackets spread over a broad income spectrum are given the worst score.

Number of Brackets. An income tax system creates changes in behavior when the taxpayer's income reaches the end of one tax rate bracket and moves into a higher bracket. At such a break point, incentives change, and as a result, numerous rate changes are more economically harmful than a single-rate structure. This variable is intended to measure the disincentive effect the corporate income tax has on rising incomes. States that score the best on this variable are the 29 states–and the District of Columbia–that have a single-rate system. Alaska's 10-bracket system earns the worst score in this category. Other states with multi-bracket systems include Arkansas (five brackets) and Maine and New Jersey (four brackets).

Corporate Tax Base

This subindex measures the economic impact of each state's definition of what should be subject to corporate taxation.

The three criteria used to measure the competitiveness of each state's corporate tax base are given equal weight: the availability of certain credits, deductions, and exemptions; the ability of taxpayers to deduct net operating losses; and a host of smaller tax base issues that combine to make up the other third of the corporate tax base subindex.

14 Jeffrey L. Kwall, "The Repeal of Graduated Corporate Tax Rates," *Tax Notes*, June 27, 2011, 1395.

Under a gross receipts tax, some of these tax base criteria (net operating losses and some corporate income tax base variables) are replaced by the availability of deductions from gross receipts for employee compensation costs and cost of goods sold. States are rewarded for granting these deductions because they diminish the greatest disadvantage of using gross receipts as the base for corporate taxation: the uneven effective tax rates that various industries pay, depending on how many levels of production are hit by the tax.

Net Operating Losses. The corporate income tax is designed to tax only the profits of a corporation. However, a yearly profit snapshot may not fully capture a corporation's true profitability. For example, a corporation in a highly cyclical industry may look very profitable during boom years but lose substantial amounts during bust years. When examined over the entire business cycle, the corporation may actually have an average profit margin.

The deduction for net operating losses (NOL) helps ensure that, over time, the corporate income tax is a tax on average profitability. Without the NOL deduction, corporations in cyclical industries pay much higher taxes than those in stable industries, even assuming identical average profits over time. Simply put, the NOL deduction helps level the playing field among cyclical and noncyclical industries. Under the Tax Cuts and Jobs Act, the federal government allows losses to be carried forward indefinitely, though they may only reduce taxable income by 80 percent in any given year. Because gross receipts taxes inherently preclude the possibility of carrying net operating losses backward or forward, the *Index* treats states with statewide gross receipts taxes as having the equivalent of no NOL carryback or carryforward provisions.

California has temporarily suspended its net operating loss provisions as a revenue-raising measure during the pandemic despite the state posting record surpluses. It is the only state without an active NOL provision and is assigned the worst score across all NOL variables.

Number of Years Allowed for Carryback and Carryforward. This variable measures the number of years allowed on a carryback or carryforward of an NOL deduction. The longer the overall time span, the higher the probability that the corporate income tax is being levied on the corporation's average profitability. Generally, states entered FY 2022 with better treatment of the carryforward (up to a maximum of 20 years) than the carryback (up to a maximum of three years). States score well on the *Index* if they conform to the new federal provisions or provide their own robust system of carryforwards and carrybacks.

Caps on the Amount of Carryback and Carryforward. When companies have a larger NOL than they can deduct in one year, most states permit them to carry deductions of any amount back to previous years' returns or forward to future returns. States that limit those amounts are ranked lower in the *Index*. Two states, Idaho and Montana, limit the number of carrybacks, though they do better than many of their peers in offering any carryback provisions at all. Of states that allow a carryforward of losses, only Illinois, New Hampshire, and Pennsylvania limit carryforwards. Illinois' cap is a recent addition, intended to only apply to tax years 2021 through 2024. As a result, these states score poorly on this variable.

Gross Receipts Tax Deductions. Proponents of gross receipts taxation invariably praise the steadier flow of tax receipts into government coffers in comparison with the fluctuating revenue generated by corporate income taxes, but this stability comes at a great cost. The attractively low statutory rates associated with gross receipts taxes are an illusion. Since gross receipts taxes are levied many times in the production process, the effective tax rate on a product is much higher than the statutory rate would suggest. Effective tax rates under a gross receipts tax vary dramatically by industry or individual business, a stark departure from the principle of tax neutrality. Firms with few steps in their production chain are relatively lightly taxed under a gross receipts tax, and vertically-integrated, high-margin firms prosper, while firms with longer production chains are exposed to a substantially higher tax burden. The pressure of this economic imbalance often leads lawmakers to enact separate rates for each industry, an inevitably unfair and inefficient process.

Two reforms that states can make to mitigate this damage are to permit deductions from gross receipts for employee compensation costs and cost of goods sold, effectively moving toward a regular corporate income tax.

Delaware, Nevada, Ohio, Oregon, Tennessee, and Washington score the worst, because their gross receipts taxes do not offer full deductions for either the cost of goods sold or employee compensation. Texas offers a deduction for either the cost of goods sold or employee compensation but not both. The Virginia BPOL tax, the West Virginia B&O, and the Pennsylvania business privilege tax are not included in this survey, because they are assessed at the local level and not levied uniformly across the state.

Federal Income Used as State Tax Base. States that use federal definitions of income reduce the tax compliance burden on their taxpayers. Two states (Arkansas and Mississippi) do not conform to federal definitions of corporate income and they score poorly.

Allowance of Federal ACRS and MACRS Depreciation. The vast array of federal depreciation schedules is, by itself, a tax complexity nightmare for businesses. The specter of having 50 different schedules would be a disaster from a tax complexity standpoint. This variable measures the degree to which states have adopted the federal Accelerated Cost Recovery System (ACRS) and Modified Accelerated Cost Recovery System (MACRS) depreciation schedules. One state (California) adds complexity by failing to fully conform to the federal system.

Deductibility of Depletion. The deduction for depletion works similarly to depreciation, but it applies to natural resources. As with depreciation, tax complexity would be staggering if all 50 states imposed their own depletion schedules. This variable measures the degree to which states have adopted the federal depletion schedules. Thirteen states are penalized because they do not fully conform to the federal system: Alaska, California, Delaware, Iowa, Louisiana, Maryland, Minnesota, Mississippi, New Hampshire, North Carolina, Oklahoma, Oregon, and Tennessee.

Alternative Minimum Tax. The federal Alternative Minimum Tax (AMT) was created to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard corporate income tax code. Evidence shows that the AMT does not increase efficiency or improve fairness in any meaningful way. It nets little money for the government, imposes compliance costs that in some years are actually larger than collections, and encourages firms to cut back or shift their investments (Chorvat and Knoll, 2002). As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity.

Five states have an AMT on corporations and thus score poorly: California, Iowa, Kentucky, Minnesota, and New Hampshire.

Deductibility of Taxes Paid. This variable measures the extent of double taxation on income used to pay foreign taxes, i.e., paying a tax on money the taxpayer has already mailed to foreign taxing authorities. States can avoid this double taxation by allowing the deduction of taxes paid to foreign jurisdictions. Twenty-three states allow deductions for foreign taxes paid and score well. The remaining states with corporate income taxation do not allow deductions for foreign taxes paid and thus score poorly.

Indexation of the Tax Code. For states that have multiple-bracket corporate income taxes, it is important to index the brackets for inflation. That prevents de facto tax increases on the nominal increase in income due to inflation. Put simply, this "inflation tax" results in higher tax burdens on taxpayers, usually without their knowledge or consent. All 15 states with graduated corporate income taxes fail to index their tax brackets: Alaska, Arkansas, Hawaii, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, New Jersey, New Mexico, New York, North Dakota, Oregon, and Vermont.

Throwback. To reduce the double taxation of corporate income, states use apportionment formulas that seek to determine how much of a company's income a state can properly tax. Generally, states require a company with nexus (that is, sufficient connection to the state to justify the state's power to tax its income) to apportion its income to the state based on some ratio of the company's in-state property, payroll, and sales compared to its total property, payroll, and sales.

Among the 50 states, there is little harmony in apportionment formulas. Many states weight the three factors equally while others weight the sales factor more heavily (a recent trend in state tax policy). Since many businesses make sales into states where they do not have nexus, businesses can end up with "nowhere income," income that is not taxed by any state. To counter this phenomenon, many states have adopted what are called throwback rules because they identify nowhere income and throw it back into a state where it will be taxed, even though it was not earned in that state.

Throwback and throwout rules for sales of tangible property add yet another layer of tax complexity. Since two or more states can theoretically lay claim to "nowhere" income, rules have to be created and enforced to decide who gets to tax it. States with corporate income taxation are almost evenly divided between those with and without throwback rules. Twenty-six states do not have them, while 22 states and the District of Columbia do.

Section 168(k) Expensing. Because corporate income taxes are intended to fall on net income, they should include deductions for business expenses—including investment in machinery and equipment. Historically, however, businesses have been required to depreciate the value of these purchases over time. In recent years, the federal government offered "bonus depreciation" to accelerate the deduction for these investments, and under the Tax Cuts and Jobs Act, investments in machinery and equipment are fully deductible in the first year, a policy known as "full expensing." Nineteen states follow the federal government in offering full expensing, while two offer "bonus depreciation" short of full expensing.

Net Interest Limitation. Federal law now restricts the deduction of business interest, limiting the deduction to 30 percent of modified income, with the ability to carry the remainder forward to future tax years. This change was intended to eliminate the bias in favor of debt financing (over equity financing) in the federal code, but particularly when states adopt this limitation without incorporating its counterbalancing provision, full expensing, the result is higher investment costs. Thirty-three states and the District of Columbia conform to the net interest limitation.

Inclusion of GILTI. Historically, states have largely avoided taxing international income. Following federal tax reform, however, some states have latched onto the federal provision for the taxation of Global Low-Taxed Intangible Income (GILTI), intended as a guardrail for the new federal territorial system of taxation, as a means to broaden their tax bases to include foreign business activity. States that tax GILTI are penalized in the *Index*, while states receive partial credit for moderate taxation of GILTI (for instance, by adopting the Section 250 deduction) and are rewarded for decoupling or almost fully decoupling from GILTI (by, for instance, treating it as largely-deductible foreign dividend income in addition to providing the Section 250 deduction).

Tax Credits

Many states provide tax credits that lower the effective tax rates for certain industries and investments, often for large firms from out of state that are considering a move. Policymakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a bad business tax climate. Economic development and job creation tax credits complicate the tax system, narrow the tax base, drive up tax rates for companies that do not qualify, distort the free market, and often fail to achieve economic growth.[15]

15 For example, see Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70(1), Winter 2004, 27; and William F. Fox and Matthew N. Murray, "Do Economic Effects Justify the Use of Fiscal Incentives?" *Southern Economic Journal* 71(1), July 2004, 78.

A more effective approach is to systematically improve the business tax climate for the long term. Thus, this component rewards those states that do not offer the following tax credits, with states that offer them scoring poorly.

Investment Tax Credits. Investment tax credits typically offer an offset against tax liability if the company invests in new property, plants, equipment, or machinery in the state offering the credit. Sometimes, the new investment will have to be "qualified" and approved by the state's economic development office. Investment tax credits distort the market by rewarding investment in new property as opposed to the renovation of old property.

Job Tax Credits. Job tax credits typically offer an offset against tax liability if the company creates a specified number of jobs over a specified period of time. Sometimes, the new jobs will have to be "qualified" and approved by the state's economic development office, allegedly to prevent firms from claiming that jobs shifted were jobs added. Even if administered efficiently, job tax credits can misfire in a number of ways. They induce businesses whose economic position would be best served by spending more on new equipment or marketing to hire new employees instead. They also favor businesses that are expanding anyway, punishing firms that are already struggling. Thus, states that offer such credits score poorly on the *Index*.

Research and Development (R&D) Tax Credits. Research and development tax credits reduce the amount of tax due by a company that invests in "qualified" research and development activities. The theoretical argument for R&D tax credits is that they encourage the kind of basic research that is not economically justifiable in the short run but that is better for society in the long run. In practice, their negative side effects–greatly complicating the tax system and establishing a government agency as the arbiter of what types of research meet a criterion so difficult to assess–far outweigh the potential benefits. Thus, states that offer such credits score poorly on the *Index*.

INDIVIDUAL INCOME TAX

The individual income tax component, which accounts for 30.6 percent of each state's total *Index* score, is important to business because a significant number of businesses, including sole proprietorships, partnerships, and S corporations, report their income through the individual income tax code.

Taxes can have a significant impact on an individual's decision to become a self-employed entrepreneur. Gentry and Hubbard (2004) found, "While the level of the marginal tax rate has a negative effect on entrepreneurial entry, the progressivity of the tax also discourages entrepreneurship, and significantly so for some groups of households." Using education as a measure of potential for innovation, Gentry and Hubbard found that a progressive tax system "discourages entry into self-employment for people of all educational backgrounds." Moreover, citing Carroll, Holtz-Eakin, Rider, and Rosen (2000),

TABLE 4.

Individual Income Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	25	25	25	25	31	31	29	28	4.90	30	4.89	-2	-0.01
Alaska	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Arizona	22	24	18	19	19	19	17	18	18	5.35	16	5.84	2	0.49
Arkansas	34	36	37	40	40	40	40	42	38	4.32	37	4.48	1	0.16
California	50	50	50	50	50	49	49	50	49	2.06	49	2.06	0	0.00
Colorado	15	14	14	14	14	13	13	13	14	5.90	14	5.89	0	-0.01
Connecticut	42	42	46	47	47	43	45	47	47	3.41	47	3.41	0	0.00
Delaware	43	43	42	44	44	44	44	44	44	3.81	44	3.81	0	0.00
Florida	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Georgia	33	35	35	35	35	37	36	36	35	4.72	35	4.72	0	0.00
Hawaii	47	47	47	38	38	47	47	46	46	3.46	46	3.46	0	0.00
Idaho	20	21	23	24	24	23	25	24	20	5.20	19	5.32	1	0.12
Illinois	10	15	11	11	13	14	14	12	13	5.91	13	5.90	0	-0.01
Indiana	14	13	15	15	15	15	15	14	15	5.85	15	5.84	0	-0.01
Iowa	41	41	41	42	42	42	41	40	40	4.27	40	4.26	0	-0.01
Kansas	16	17	17	17	18	21	22	21	22	5.10	22	5.10	0	0.00
Kentucky	36	38	38	37	37	17	18	17	17	5.54	18	5.54	-1	0.00
Louisiana	32	33	32	32	31	35	35	35	34	4.73	25	5.02	9	0.29
Maine	26	28	34	31	32	25	20	22	23	5.09	23	5.08	0	-0.01
Maryland	44	44	43	46	46	45	43	45	45	3.66	45	3.66	0	0.00
Massachusetts	12	11	12	12	11	11	11	16	11	6.00	11	6.10	0	0.10
Michigan	13	12	13	13	12	12	12	11	12	5.98	12	5.97	0	-0.01
Minnesota	45	45	44	45	45	46	46	43	43	3.90	43	3.89	0	-0.01
Mississippi	21	22	24	23	23	28	28	27	26	4.96	26	4.99	0	0.03
Missouri	31	32	31	33	33	27	23	20	21	5.14	21	5.15	0	0.01
Montana	18	19	20	20	20	22	24	23	24	5.05	24	5.07	0	0.02
Nebraska	38	34	33	34	34	30	30	30	29	4.87	32	4.87	-3	0.00
Nevada	1	1	1	1	1	5	5	5	5	8.51	5	8.50	0	-0.01
New Hampshire	9	9	9	9	9	9	9	9	9	6.36	9	6.35	0	-0.01
New Jersey	48	48	48	48	48	50	50	49	48	2.09	48	2.09	0	0.00
New Mexico	19	20	22	22	22	26	27	26	36	4.54	36	4.54	0	0.00
New York	49	49	49	49	49	48	48	48	50	1.88	50	1.88	0	0.00
North Carolina	37	16	16	16	16	16	16	15	16	5.76	17	5.76	-1	0.00
North Dakota	27	23	21	21	21	18	19	25	25	4.98	27	4.97	-2	-0.01
Ohio	46	46	45	43	43	41	42	41	41	4.23	41	4.23	0	0.00
Oklahoma	29	30	29	28	28	32	32	31	30	4.85	31	4.88	-1	0.03
Oregon	35	37	36	36	36	38	39	38	42	4.00	42	4.00	0	0.00
Pennsylvania	17	18	19	18	17	20	21	19	19	5.22	20	5.18	-1	-0.04
Rhode Island	25	27	27	27	27	24	26	32	31	4.83	33	4.82	-2	-0.01
South Carolina	30	31	30	30	30	34	34	34	33	4.79	28	4.89	5	0.10
South Dakota	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	8	8	8	8	8	8	8	8	6	8.29	6	8.28	0	-0.01
Texas	6	6	6	6	6	6	6	6	7	8.00	7	7.99	0	-0.01
Utah	11	10	10	10	10	10	10	10	10	6.10	10	6.11	0	0.01
Vermont	40	40	40	41	41	36	38	39	39	4.32	39	4.30	0	-0.02
Virginia	28	29	28	29	29	33	33	33	32	4.79	34	4.79	-2	0.00
Washington	6	6	6	6	6	6	6	6	7	8.00	8	6.87	-1	-1.13
West Virginia	24	26	26	26	26	29	29	28	27	4.90	29	4.89	-2	-0.01
Wisconsin	39	39	39	39	39	39	37	37	37	4.38	38	4.35	-1	-0.03
Wyoming	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	47	47	46	49	49	47	47	48	48	2.87	48	2.62	0	-0.25

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Gentry and Hubbard contend, "Higher tax rates reduce investment, hiring, and small business income growth" (p. 7). Less neutral individual income tax systems, therefore, hurt entrepreneurship and a state's business tax climate.

Another important reason individual income tax rates are critical for businesses is the cost of labor. Labor typically constitutes a major business expense, so anything that hurts the labor pool will also affect business decisions and the economy. Complex, poorly designed tax systems that extract an inordinate amount of tax revenue reduce both the quantity and quality of the labor pool. This is consistent with the findings of Wasylenko and McGuire (1985), who found that individual income taxes affect businesses indirectly by influencing the location decisions of individuals. A progressive, multi-rate income tax exacerbates this problem by increasing the marginal tax rate at higher levels of income, continually reducing the value of work vis-à-vis the value of leisure.

For example, suppose a worker has to choose between one hour of additional work worth $10 and one hour of leisure which to him is worth $9.50. A rational person would choose to work for another hour. But if a 10 percent income tax rate reduces the after-tax value of labor to $9, then a rational person would stop working and take the hour to pursue leisure. Additionally, workers earning higher wages–$30 per hour, for example–who face progressively higher marginal tax rates–20 percent, for instance–are more likely to be discouraged from working additional hours. In this scenario, the worker's after-tax wage is $24 per hour; therefore, those workers who value leisure more than $24 per hour will choose not to work. Since the after-tax wage is $6 lower than the pretax wage in this example, compared to only $1 lower in the previous example, more workers will choose leisure. In the aggregate, the income tax reduces the available labor supply.[16]

The individual income tax rate subindex measures the impact of tax rates on the marginal dollar of individual income using three criteria: the top tax rate, the graduated rate structure, and the standard deductions and exemptions which are treated as a zero percent tax bracket. The rates and brackets used are for a single taxpayer, not a couple filing a joint return.

The individual income tax base subindex takes into account measures enacted to prevent double taxation, whether the code is indexed for inflation, and how the tax code treats married couples compared to singles. States that score well protect married couples from being taxed more severely than if they had filed as two single individuals. They also protect taxpayers from double taxation by recognizing LLCs and S corporations under the individual tax code and indexing their brackets, exemptions, and deductions for inflation.

States that do not impose an individual income tax generally receive a perfect score, and states that do impose an individual income tax will generally score well if they have a flat, low tax rate with few deductions and exemptions. States that score poorly have complex, multiple-rate systems.

16 See Edward C. Prescott, "Why Do Americans Work So Much More than Europeans?" *Federal Reserve Bank of Minneapolis Quarterly Review*, July 2004. See also J. Scott Moody and Scott A. Hodge, "Wealthy Americans and Business Activity," Tax Foundation, Aug. 1, 2004.

The seven states without an individual income tax or non-UI payroll tax are, not surprisingly, the highest scoring states on this component: Alaska, Florida, South Dakota, Tennessee, Texas, Washington, and Wyoming. Nevada, which taxes wage income (but not unearned income) at a low rate under a non-UI payroll tax, also does extremely well in this component of the *Index*. New Hampshire also scores well, because while the state levies a tax on individual income in the form of interest and dividends, it does not tax wages and salaries.[17] Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, North Carolina, Pennsylvania, and Utah score highly because they have a single, low tax rate.

Scoring near the bottom of this component are states that have high tax rates and very progressive bracket structures. They generally fail to index their brackets, exemptions, and deductions for inflation, do not allow for deductions of foreign or other state taxes, penalize married couples filing jointly, and do not recognize LLCs and S corporations.

Individual Income Tax Rate

The rate subindex compares the states that tax individual income after setting aside the five states that do not and therefore receive perfect scores: Alaska, Florida, South Dakota, and Wyoming. Tennessee, Texas, and Washington do not have an individual income tax, but they do tax S corporation income—and Texas and Washington tax LLC income—through their gross receipts taxes and thus do not score perfectly in this component. Nevada has a low-rate payroll tax on wage income. New Hampshire, meanwhile, does not tax wage and salary income but does tax interest and dividend income.

Top Marginal Tax Rate. California has the highest top income tax rate of 13.3 percent. Other states with high top rates include Hawaii (11.0 percent), New York (10.9 percent), New Jersey (10.75 percent), Oregon (9.9 percent), Minnesota (9.85 percent), Vermont (8.75 percent), and Iowa (8.53 percent).

States with the lowest top statutory rates are North Dakota (2.9 percent), Arizona (2.98 percent), Pennsylvania (3.07 percent), Indiana (3.23 percent), Ohio (3.99 percent), Michigan and Louisiana (both at 4.25 percent), Colorado (4.55 percent), and Utah (4.85 percent). Alabama, Kentucky, Mississippi, and New Hampshire all impose a top statutory rate of 5 percent.[18] Illinois and Kansas, which previously boasted rates below 5 percent, both adopted rate increases in recent years. (Although Illinois' statutory rate is 4.95 percent, it also imposes an additional 1.5 percent tax on pass-through businesses, discussed elsewhere, bringing the rate for these entities to 6.45 percent.)

In addition to statewide income tax rates, some states allow local-level income taxes.[19] We represent these as the mean between the rate in the capital city and most populous city. In some cases, states authorizing local-level income taxes still keep the level of income taxation modest overall. For instance, Alabama, Indiana, Michigan, and

17 Tennessee has begun the process of phasing out its tax on interest and dividend income.

18 New Hampshire taxes only interest and dividends. To account for this, the *Index* converts the statutory tax rate into an effective rate as measured against the typical state income tax base that includes wages. Under a typical income tax base with a flat rate and no tax preferences, this is the statutory rate that would be required to raise the same amount of revenue as the current system. Nationally, dividends and interest account for 19.6 percent of income. For New Hampshire, its 5 percent rate was multiplied by 19.6 percent, yielding the equivalent rate of 0.98 percent.

19 See Jared Walczak, "Local Income Taxes in 2019," Tax Foundation, July 30, 2019.

Pennsylvania allow local income add-ons, but are still among the states with the lowest overall rates.

Top Tax Bracket Threshold. This variable assesses the degree to which pass-through businesses are subject to reduced after-tax return on investment as net income rises. States are rewarded for a top rate that kicks in at lower levels of income, because doing so approximates a less distortionary flat-rate system. For example, Alabama has a progressive income tax structure with three income tax rates. However, because Alabama's top rate of 5 percent applies to all taxable income over $3,000, the state's income tax rate structure is nearly flat.

States with flat-rate systems score the best on this variable because their top rate kicks in at the first dollar of income (after accounting for the standard deduction and personal exemption). They are Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, North Carolina, Pennsylvania, and Utah. States with high kick-in levels score the worst. These include New York ($25 million), New Jersey ($1 million of taxable income), California ($1 million), Connecticut ($500,000), and North Dakota ($445,000 of taxable income).

Number of Brackets. The *Index* converts exemptions and standard deductions to a zero bracket before tallying income tax brackets. From an economic perspective, standard deductions and exemptions are equivalent to an additional tax bracket with a zero tax rate.

For example, Kansas has a standard deduction of $3,500 and a personal exemption of $2,250, for a combined value of $5,750. Statutorily, Kansas has a top rate on all taxable income over $30,000 and two lower brackets, one beginning at the first dollar of income and another at $15,000, so it has an average bracket width of $10,000. Because of its deduction and exemption, however, Kansas's top rate actually kicks in at $35,750 of income, and it has three tax brackets below that with an average width of $11,917. The size of allowed standard deductions and exemptions varies considerably.[20]

Pennsylvania scores the best in this variable by having only one tax bracket (that is, a flat tax with no standard deduction). States with only two brackets (that is, flat taxes with a standard deduction) are Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, North Carolina, and Utah. On the other end of the spectrum, Hawaii scores worst with 12 brackets, followed by California with 10 brackets, and Iowa and Missouri with 9 brackets.

Average Width of Brackets. Many states have several narrow tax brackets close together at the low end of the income scale, including a zero bracket created by standard deductions and exemptions. Most taxpayers never notice them, because they pass so quickly through those brackets and pay the top rate on most of their income. On the

20 Some states offer tax credits in lieu of standard deductions or personal exemptions. Rather than reducing a taxpayer's taxable income before the tax rates are applied, tax credits are subtracted from a taxpayer's tax liability. Like deductions and exemptions, the result is a lower final income tax bill. In order to maintain consistency within the component score, tax credits are converted into equivalent income exemptions or deductions.

other hand, some states impose ever-increasing rates throughout the income spectrum, causing individuals and noncorporate businesses to alter their income-earning and tax-planning behavior. This subindex penalizes the latter group of states by measuring the average width of the brackets, rewarding those states where the average width is small, since in these states the top rate is levied on most income, acting more like a flat rate on all income.

Income Recapture. Connecticut and New York apply the rate of the top income tax bracket to previous taxable income after the taxpayer crosses the top bracket threshold, while Arkansas imposes different tax tables depending on the filer's level of income. New York's recapture provision is the most damaging and results in an approximately $22,000 penalty for reaching the top bracket. Income recapture provisions are poor policy, because they result in dramatically high marginal tax rates at the point of their kick-in, and they are nontransparent in that they raise tax burdens substantially without being reflected in the statutory rate.

Individual Income Tax Base

States have different definitions of taxable income, and some create greater impediments to economic activity than others. The base subindex gives a 40 percent weight to the double taxation of taxable income and a 60 percent weight to an accumulation of other base issues, including indexation and marriage penalties.

The states with no individual income tax of any kind achieve perfect neutrality. Tennessee and Texas, however, are docked slightly because they do not recognize LLCs or S corporations, and Nevada's payroll tax keeps the state from achieving a perfect store. New Hampshire only taxes interest and dividend income, while Washington only taxes capital gains income. Of the other 43 states, Arizona, Idaho, Illinois, Maine, Michigan, Missouri, Montana, and Utah have the best scores, avoiding many problems with the definition of taxable income that plague other states. Meanwhile, states where the tax base is found to cause an unnecessary drag on economic activity include New Jersey, Delaware, New York, California, Connecticut, and Ohio.

Marriage Penalty. A marriage penalty exists when a state's standard deduction and tax brackets for married taxpayers filing jointly are not double those for single filers. As a result, two singles (if combined) can have a lower tax bill than a married couple filing jointly with the same income. This is discriminatory and has serious business ramifications. The top-earning 20 percent of taxpayers are dominated (85 percent) by married couples. This same 20 percent also have the highest concentration of business owners of all income groups (Hodge 2003A, Hodge 2003B). Because of these concentrations, marriage penalties have the potential to affect a significant share of pass-through businesses. Twenty-three states and the District of Columbia have marriage penalties built into their income tax brackets.

Some states attempt to get around the marriage penalty problem by allowing married couples to file as if they were singles or by offering an offsetting tax credit. While helpful in offsetting the dollar cost of the marriage penalty, these solutions come at the expense of added tax complexity. Still, states that allow married couples to file as singles do not receive a marriage penalty score reduction.

Double Taxation of Capital Income. Since most states with an individual income tax system mimic the federal income tax code, they also possess its greatest flaw: the double taxation of capital income. Double taxation is brought about by the interaction between the corporate income tax and the individual income tax. The ultimate source of most capital income–interest, dividends, and capital gains–is corporate profits. The corporate income tax reduces the level of profits that can eventually be used to generate interest or dividend payments or capital gains.[21] This capital income must then be declared by the receiving individual and taxed. The result is the double taxation of this capital income—first at the corporate level and again on the individual level.

All states that tax wage income score poorly by this criterion. New Hampshire, which taxes individuals on interest and dividends, scores somewhat better because it does not tax capital gains. Washington scores even better on this metric because it taxes certain capital gains income but does not have a corporate income tax, nor does it tax wage and salary income. Nevada's payroll tax does not apply to capital income, and thus scores perfectly on this measure, along with states that forgo all income taxation.

Federal Income Used as State Tax Base. Despite the shortcomings of the federal government's definition of income, states that use it reduce the tax compliance burden on taxpayers. Five states score poorly because they do not conform to federal definitions of individual income: Alabama, Arkansas, Mississippi, New Jersey, and Pennsylvania.

Alternative Minimum Tax (AMT)

At the federal level, the Alternative Minimum Tax (AMT) was created in 1969 to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard individual income tax code. AMTs are an inefficient way to prevent tax deductions and credits from totally eliminating tax liability. As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. Five states score poorly for imposing an AMT on individuals: California, Colorado, Connecticut, Iowa, and Minnesota.

Credit for Taxes Paid

This variable measures the extent of double taxation on income used to pay foreign and state taxes, i.e., paying the same taxes twice. States can avoid double taxation by allowing a credit for state taxes paid to other jurisdictions.

Recognition of Limited Liability Corporation and S Corporation Status

One important development in the federal tax system was the creation of the limited

21 Equity-related capital gains are not created directly by a corporation. Rather, they are the result of stock appreciations due to corporate activity such as increasing retained earnings, increasing capital investments, or issuing dividends. Stock appreciation becomes taxable realized capital gains when the stock is sold by the holder.

liability corporation (LLC) and the S corporation. LLCs and S corporations provide businesses some of the benefits of incorporation, such as limited liability, without the overhead of becoming a traditional C corporation. The profits of these entities are taxed under the individual income tax code, which avoids the double taxation problems that plague the corporate income tax system. Every state with a full individual income tax recognizes LLCs to at least some degree, and all but Louisiana recognize S corporations in some fashion, but those that require additional state election or make the entity file through the state's gross receipts tax (as in Delaware, Ohio, Texas, and Washington) score poorly in this variable.

Indexation of the Tax Code

Indexing the tax code for inflation is critical in order to prevent de facto tax increases on the nominal increase in income due to inflation. This "inflation tax" results in higher tax burdens on taxpayers, usually without their knowledge or consent. Three areas of the individual income tax are commonly indexed for inflation: the standard deduction, personal exemptions, and tax brackets. Twenty-five states index all three or do not impose an individual income tax; 15 states and the District of Columbia index one or two of the three; and 10 states do not index at all.

SALES TAXES

Sales tax makes up 23.7 percent of each state's *Index* score. The type of sales tax familiar to taxpayers is a tax levied on the purchase price of a good at the point of sale. Due to the inclusion of some business inputs in most states' sales tax bases, the rate and structure of the sales tax is an important consideration for many businesses. The sales tax can also hurt the business tax climate because as the sales tax rate climbs, customers make fewer purchases or seek low-tax alternatives. As a result, business is lost to lower-tax locations, causing lost profits, lost jobs, and lost tax revenue.[22] The effect of differential sales tax rates among states or localities is apparent when a traveler crosses from a high-tax state to a neighboring low-tax state. Typically, a vast expanse of shopping malls springs up along the border in the low-tax jurisdiction.

On the positive side, sales taxes levied on goods and services at the point of sale to the end-user have at least two virtues. First, they are transparent: the tax is never confused with the price of goods by customers. Second, since they are levied at the point of sale, they are less likely to cause economic distortions than taxes levied at some intermediate stage of production (such as a gross receipts tax or sales taxes on business-to-business transactions).

The negative impact of sales taxes is well documented in the economic literature and through anecdotal evidence. For example, Bartik (1989) found that high sales taxes, especially sales taxes levied on equipment, had a negative effect on small business start-ups. Moreover, companies have been known to avoid locating factories or facilities in

22 States have sought to limit this sales tax competition by levying a "use tax" on goods purchased out of state and brought into the state, typically at the same rate as the sales tax. Few consumers comply with use tax obligations.

TABLE 5.

Sales Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	50	50	50	49	49	50	50	50	50	2.56	50	2.54	0	-0.02
Alaska	5	5	5	5	5	5	5	5	5	8.07	5	8.04	0	-0.03
Arizona	43	43	43	43	43	40	40	40	40	4.06	41	4.06	-1	0.00
Arkansas	44	45	46	44	44	43	45	45	45	3.73	45	3.74	0	0.01
California	46	46	45	45	46	47	47	47	47	3.37	47	3.36	0	-0.01
Colorado	37	37	37	37	37	37	37	36	38	4.26	40	4.22	-2	-0.04
Connecticut	34	34	32	32	29	29	26	25	23	4.80	23	4.80	0	0.00
Delaware	2	2	1	1	1	2	2	2	2	9.01	2	8.98	0	-0.03
Florida	23	23	23	29	30	22	23	23	21	4.94	21	4.93	0	-0.01
Georgia	27	27	34	31	32	30	30	29	29	4.61	31	4.58	-2	-0.03
Hawaii	31	31	27	26	26	32	29	28	28	4.63	27	4.63	1	0.00
Idaho	14	12	15	15	15	12	12	10	10	5.40	10	5.39	0	-0.01
Illinois	35	35	33	27	27	35	34	39	39	4.22	38	4.28	1	0.06
Indiana	21	22	18	9	9	13	20	20	19	5.01	19	5.01	0	0.00
Iowa	18	18	20	20	19	18	15	15	15	5.17	15	5.17	0	0.00
Kansas	24	25	29	28	28	27	38	37	26	4.72	25	4.70	1	-0.02
Kentucky	11	19	14	13	14	19	14	14	14	5.21	14	5.20	0	-0.01
Louisiana	48	47	48	50	50	48	48	48	48	3.04	48	3.03	0	-0.01
Maine	7	8	8	8	8	9	8	8	8	5.64	8	5.83	0	0.19
Maryland	12	16	17	18	18	17	19	18	27	4.64	30	4.58	-3	-0.06
Massachusetts	19	21	19	19	11	11	13	13	13	5.23	13	5.22	0	-0.01
Michigan	10	10	9	10	12	14	11	11	11	5.38	11	5.38	0	0.00
Minnesota	30	33	26	25	25	26	28	27	31	4.60	29	4.59	2	-0.01
Mississippi	38	39	39	39	39	36	33	32	33	4.49	33	4.47	0	-0.02
Missouri	22	24	25	23	24	25	24	24	25	4.78	26	4.70	-1	-0.08
Montana	3	3	3	3	3	3	3	3	3	8.94	3	8.92	0	-0.02
Nebraska	15	13	12	12	21	8	9	9	9	5.50	9	5.52	0	0.02
Nevada	41	41	41	41	42	45	44	44	44	3.81	44	3.81	0	0.00
New Hampshire	1	1	2	2	2	1	1	1	1	9.05	1	9.02	0	-0.03
New Jersey	40	40	40	40	41	42	42	42	43	3.96	42	3.97	1	0.01
New Mexico	42	42	42	42	40	41	41	41	41	4.05	35	4.39	6	0.34
New York	45	44	44	46	45	44	43	43	42	3.96	43	3.90	-1	-0.06
North Carolina	26	17	21	21	20	24	21	21	20	4.97	20	4.95	0	-0.02
North Dakota	33	32	35	35	35	31	27	30	30	4.60	28	4.59	2	-0.01
Ohio	29	29	30	33	31	28	32	34	35	4.39	36	4.38	-1	-0.01
Oklahoma	36	36	36	36	36	39	39	38	37	4.27	39	4.24	-2	-0.03
Oregon	4	4	4	4	4	4	4	4	4	8.83	4	8.82	0	-0.01
Pennsylvania	20	20	22	22	22	21	17	17	17	5.13	16	5.15	1	0.02
Rhode Island	28	28	24	24	23	23	25	26	24	4.79	24	4.79	0	0.00
South Carolina	32	30	31	30	33	34	31	31	32	4.51	32	4.49	0	-0.02
South Dakota	25	26	28	34	34	33	35	33	34	4.43	34	4.42	0	-0.01
Tennessee	47	48	47	47	47	46	46	46	46	3.53	46	3.53	0	0.00
Texas	39	38	38	38	38	38	36	35	36	4.37	37	4.36	-1	-0.01
Utah	17	14	13	17	17	15	22	22	22	4.93	22	4.93	0	0.00
Vermont	16	15	16	16	16	20	16	16	16	5.13	17	5.10	-1	-0.03
Virginia	9	9	10	11	10	10	10	12	12	5.25	12	5.24	0	-0.01
Washington	49	49	49	48	48	49	49	49	49	2.95	49	2.97	0	0.02
West Virginia	13	11	11	14	13	16	18	19	18	5.04	18	5.02	0	-0.02
Wisconsin	8	7	7	7	7	7	7	7	7	6.02	7	6.01	0	-0.01
Wyoming	6	6	6	6	6	6	6	6	6	6.03	6	6.03	0	0.00
District of Columbia	34	34	34	35	35	32	36	34	37	4.33	39	4.28	-2	-0.05

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

certain states because the factory's machinery would be subject to the state's sales tax.[23]

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs.[24] Hawaii, New Mexico, South Dakota, and Washington are examples of states that tax many business inputs. The ideal base for sales taxation is all goods and services at the point of sale to the end-user.

Excise taxes are sales taxes levied on specific goods. Goods subject to excise taxation are typically (but not always) perceived to be luxuries or vices, the latter of which are less sensitive to drops in demand when the tax increases their price. Examples typically include tobacco, liquor, and gasoline. The sales tax component of the *Index* takes into account the excise tax rates each state levies.

The five states without a state sales tax–Alaska,[25] Delaware, Montana, New Hampshire, and Oregon–achieve the best sales tax component scores. Among states with a sales tax, those with low general rates and broad bases, and which avoid tax pyramiding, do best. Wyoming, Wisconsin, Maine, Nebraska, Idaho, Michigan, and Virginia all do well, with well-structured sales taxes and modest excise tax rates.

At the other end of the spectrum, Alabama, Washington, Louisiana, California, and Tennessee fare the worst, imposing high rates and taxing a range of business inputs, such as utilities, services, manufacturing, and leases—and maintaining relatively high excise taxes. Louisiana and Tennessee have the highest combined state and local rates of 9.55 percent. In general, these states levy high sales tax rates that apply to a wide range of business input items.

Sales Tax Rate

The tax rate itself is important, and a state with a high sales tax rate reduces demand for in-state retail sales. Consumers will turn more frequently to cross-border or certain online purchases, leaving less business activity in the state. This subindex measures the highest possible sales tax rate applicable to in-state retail shopping and taxable business-to-business transactions. Four states–Delaware, Montana, New Hampshire, and Oregon–do not have state or local sales taxes and thus are given a rate of zero. Alaska is sometimes counted among states with no sales tax since it does not levy a statewide sales tax. However, Alaska localities are allowed to levy sales taxes and the weighted statewide average of these taxes is 1.76 percent.

23 For example, in early 1993, Intel Corporation was considering California, New Mexico, and four other states as the site of a new billion-dollar factory. California was the only one of the six states that levied its sales tax on machinery and equipment, a tax that would have cost Intel roughly $80 million. As Intel's Bob Perlman explained in testimony before a committee of the California state legislature, "There are two ways California's not going to get the $80 million: with the factory or without it." California would not repeal the tax on machinery and equipment; New Mexico got the plant.

24 Sales taxes, which are ideally levied only on sales to final-users, are a form of consumption tax. Consumption taxes that are levied instead at each stage of production are known as value-added taxes (VAT) and are popular internationally. Theoretically a VAT can avoid the economically damaging tax pyramiding effect. The VAT has never gained wide acceptance in the U.S., and only two states (Michigan and New Hampshire) have even attempted a VAT-like tax.

25 Alaska does authorize local governments to levy their own sales taxes, however, which is reflected in the state's sales tax component score.

The *Index* measures the state and local sales tax rate in each state. A combined rate is computed by adding the general state rate to the weighted average of the county and municipal rates.

State Sales Tax Rate. Of the 45 states (and the District of Columbia) with a statewide sales tax, Colorado's 2.9 percent rate is the lowest. Five states have a 4 percent state-level sales tax: Alabama, Georgia, Hawaii, New York, and Wyoming. At the other end is California with a 7.25 percent state sales tax, including a mandatory statewide local add-on tax. Tied for second-highest are Indiana, Mississippi, Rhode Island, and Tennessee (all at 7 percent). Other states with high statewide rates include Minnesota (6.88 percent) and Nevada (6.85 percent).

Local Option Sales Tax Rates. Thirty-eight states authorize the use of local option sales taxes at the county and/or municipal level, and in some states, the local option sales tax significantly increases the tax rate faced by consumers.[26] Local jurisdictions in Colorado, for example, add an average of 4.87 percent in local sales taxes to the state's 2.9 percent state-level rate, bringing the total average sales tax rate to 7.77 percent. This may be an understatement in some localities with much higher local add-ons, but by weighting each locality's rate, the *Index* computes a statewide average of local rates that is comparable to the average in other states.

Alabama and Louisiana have the highest average local option sales taxes (5.24 and 5.10 percent, respectively), and in both states the average local option sales tax is higher than the state sales tax rate. Other states with high local option sales taxes include Colorado (4.87 percent), New York (4.52 percent), and Oklahoma (4.49 percent).

States with the highest combined state and average local sales tax rates are Louisiana and Tennessee (both at 9.55 percent), Arkansas (9.47 percent), Washington (9.29 percent), and Alabama (9.24 percent). At the low end are Alaska (1.76 percent), Hawaii (4.44 percent), Wyoming (5.36 percent), Wisconsin (5.43 percent), and Maine (5.5 percent).

Remote Seller Protections. With the Supreme Court's elimination of the physical presence requirement for imposing sales tax collection obligations, all states with sales taxes are now requiring remote sellers to collect and remit sales tax. While most states have adopted safe harbors for small sellers and have a single point of administration for all state and local sales taxes, a few diverge from these practices, imposing substantial compliance costs on out-of-state retailers. Alabama, Alaska (which only has local sales taxes), Colorado, and Louisiana lack uniform administration, while Kansas does not offer a safe harbor for small sellers.

26 The average local option sales tax rate is calculated as an average of local statutory rates, weighted by population. See Jared Walczak and Scott Drenkard, "State and Local Sales Tax Rates, Midyear 2016," Tax Foundation, July 5, 2016.

Sales Tax Base

The sales tax base subindex is computed according to five features of each state's sales tax:

- whether the base includes a variety of business-to-business transactions such as machinery, raw materials, office equipment, farm equipment, and business leases;
- whether the base includes goods and services typically purchased by consumers, such as groceries, clothing, and gasoline;
- whether the base includes services, such as legal, financial, accounting, medical, fitness, landscaping, and repair;
- whether the state leans on sales tax holidays, which temporarily exempt select goods from the sales tax; and
- the excise tax rate on products such as gasoline, diesel fuel, tobacco, spirits, and beer.

The top five states on this subindex—New Hampshire, Delaware, Montana, Oregon, and Alaska—are the five states without a general state sales tax. However, none receives a perfect score because each levies gasoline, diesel, tobacco, and beer excise taxes. States like Wyoming, Kansas, Nebraska, Colorado, Idaho, and Missouri achieve high scores on their tax base by avoiding the problems of tax pyramiding and adhering to low excise tax rates, though of these, Colorado receives poor marks for a lack of local base conformity.

States with the worst scores on the base subindex are Hawaii, Alabama, Washington, California, South Dakota, New Jersey, New Mexico, and Maryland. Their tax systems hamper economic growth by including too many business inputs, excluding too many consumer goods and services, and imposing excessive rates of excise taxation.

Sales Tax on Business-to-Business Transactions (Business Inputs). When a business must pay sales taxes on manufacturing equipment and raw materials, then that tax becomes part of the price of whatever the business makes with that equipment and those materials. The business must then collect sales tax on its own products, with the result that a tax is being charged on a price that already contains taxes. This tax pyramiding invariably results in some industries being taxed more heavily than others, which violates the principle of neutrality and causes economic distortions.

These variables are often inputs to other business operations. For example, a manufacturing firm will count the cost of transporting its final goods to retailers as a significant cost of doing business. Most firms, small and large alike, hire accountants, lawyers, and other professional service providers. If these services are taxed, then it is more expensive for every business to operate.

To understand how business-to-business sales taxes can distort the market, suppose a sales tax were levied on the sale of flour to a bakery. The bakery is not the end-user because the flour will be baked into bread and sold to consumers. Economic theory is not clear as to which party will ultimately bear the burden of the tax. The tax could be "passed forward" onto the customer or "passed backward" onto the bakery.[27] Where the tax burden falls depends on how sensitive the demand for bread is to price changes. If customers tend not to change their bread-buying habits when the price rises, then the tax can be fully passed forward onto consumers. However, if the consumer reacts to higher prices by buying less, then the tax will have to be absorbed by the bakery as an added cost of doing business.

The hypothetical sales tax on all flour sales would distort the market, because different businesses that use flour have customers with varying price sensitivity. Suppose the bakery is able to pass the entire tax on flour forward to the consumer but the pizzeria down the street cannot. The owners of the pizzeria would face a higher cost structure and profits would drop. Since profits are the market signal for opportunity, the tax would tilt the market away from pizza-making. Fewer entrepreneurs would enter the pizza business, and existing businesses would hire fewer people. In both cases, the sales tax charged to purchasers of bread and pizza would be partly a tax on a tax because the tax on flour would be built into the price. Economists call this tax pyramiding, and public finance scholars overwhelmingly oppose applying the sales tax to business inputs due to the resulting pyramiding and lack of transparency.

Besley and Rosen (1998) found that for many products, the after-tax price of the good increased by the same amount as the tax itself. That means a sales tax increase was passed along to consumers on a one-for-one basis. For other goods, however, they found that the price of the good rose by twice the amount of the tax, meaning that the tax increase translates into an even larger burden for consumers than is typically thought. Note that these inputs should only be exempt from sales tax if they are truly inputs into the production process. If they are consumed by an end-user, they are properly includable in the state's sales tax base.

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs. Hawaii, New Mexico, South Dakota, and Washington are examples of states that tax many business inputs.

Sales Tax Breadth. An economically neutral sales tax base includes all final retail sales of goods and services purchased by the end-users. In practice, however, states tend to include most goods, but relatively few services, in their sales tax bases, a growing issue in an increasingly service-oriented economy. Professor John Mikesell of Indiana University estimates that, nationwide, sales taxes extend to about 36 percent of all final consumer transactions.[28] Exempting any goods or services narrows the tax base, drives up the sales tax rate on those items still subject to tax, and introduces unnecessary distortions into the market. A well-structured sales tax, however, does not fall upon business inputs. Therefore, states that tax services that are business inputs score poorly on the *Index*, while states are rewarded for expanding their base to include more final retail sales of goods and services.

27 See Timothy J. Besley and Harvey S. Rosen, "Sales Taxes and Prices: An Empirical Analysis," NBER Working Paper No. 6667, July 1998.
28 Jared Walczak, "State Sales Tax Breadth and Reliance, Fiscal Year 2021," Tax Foundation, May 4, 2022, https://taxfoundation.org/state-sales-tax-base-reliance/.

Sales Tax on Gasoline. There is no economic reason to exempt gasoline from the sales tax, as it is a final retail purchase by consumers. However, all but seven states do so. While all states levy an excise tax on gasoline, these funds are often dedicated for transportation purposes, making them a form of user tax distinct from the general sales tax. The five states that fully include gasoline in their sales tax base (Florida, Hawaii, Illinois, Indiana, and Michigan) get a better score. Several other states receive partial credit for applying an ad valorem tax to gasoline sales, but at a different rate than the general sales tax. New York currently applies local sales taxes only.

Sales Tax on Groceries. A well-structured sales tax includes all end-user goods in the tax base, to keep the base broad, rates low, and prevent distortions in the marketplace. Many states exempt groceries to reduce the incidence of the sales tax on low-income residents. Such an exemption, however, also benefits grocers and higher-income residents, and creates additional compliance costs due to the necessity of maintaining complex, ever-changing lists of exempt and nonexempt products. Public assistance programs such as the Women, Infants, and Children (WIC) program or the Supplement Nutrition Assistance Program (SNAP) provide more targeted assistance than excluding groceries from the sales tax base. Thirteen states include or partially include groceries in their sales tax base.

Excise Taxes

Excise taxes are single-product sales taxes. Many of them are intended to reduce consumption of the product bearing the tax. Others, like the gasoline tax, are often used to fund specific projects such as road construction.

Gasoline and Diesel Excise Taxes. Levied per gallon, these are usually justified as a form of user tax paid by those who benefit from road construction and maintenance. Though gas taxes–along with tolls–are one of the best ways to raise revenue for transportation projects (roughly approximating a user fee for infrastructure use), gasoline represents a large input for most businesses, so states that levy higher rates have a less competitive business tax climate. State excise taxes on gasoline range from 70.95 cents in California (although this tax is suspended from June through December 2022) to 15.13 cents per gallon in Alaska. The *Index* relies upon calculated rates from the American Petroleum Institute, capturing states' base excise taxes in addition to other gallonage-based fees and ad valorem taxes placed upon gasoline. General sales tax rates that apply to gasoline are included in this calculated rate, but states which include, or partially include, gasoline in the sales tax base are rewarded in the sales tax breadth measure.

Tobacco, Spirits, and Beer Excise Taxes. These taxes can discourage in-state consumption and encourage consumers to seek lower prices in neighboring jurisdictions (Moody and Warcholik, 2004). This impacts a wide swath of retail outlets, such as convenience stores, that move large volumes of tobacco and beer products. The problem is exacerbated for those retailers located near the border of states with lower excise taxes as consumers move their shopping out of state—referred to as cross-border shopping.

There is also the growing problem of cross-border smuggling of products from states and areas that levy low excise taxes on tobacco into states that levy high excise taxes on tobacco. This both increases criminal activity and reduces taxable sales by legitimate retailers.[29]

States with the highest tobacco taxes per pack of 20 cigarettes are New York and Connecticut (at $4.35 each), Rhode Island ($4.25), Minnesota ($3.70), and Massachusetts ($3.51), while states with the lowest tobacco taxes are Missouri (17 cents), Georgia (37 cents), North Dakota (44 cents), North Carolina (45 cents), and South Carolina and Idaho (57 cents).

States with the highest beer taxes on a per gallon basis are Tennessee ($1.29), Alaska ($1.07), Alabama ($1.05), Georgia ($1.01), and Hawaii ($0.93), while states with the lowest beer taxes are Wyoming (2 cents), Missouri and Wisconsin (6 cents), and Colorado, Oregon, and Pennsylvania (each at 8 cents). States with the highest spirits taxes per gallon are Washington ($37.81), Oregon ($21.95), and Virginia ($19.89).

PROPERTY TAX

The property tax component, which includes taxes on real and personal property, net worth, and the transfer of assets, accounts for 14.4 percent of each state's *Index* score.

When properly structured, property taxes exceed most other taxes in comporting with the benefit principle and can be fairly economically efficient. In the realm of public finance, they are often also prized for their comparative transparency among taxes, though that transparency may contribute to the public's generally low view of property taxes. The Tax Foundation's Survey of Tax Attitudes found that local property taxes are perceived as the second most unfair state or local tax.[30]

Property taxes matter to businesses, and the tax rate on commercial property is often higher than the tax on comparable residential property. Additionally, many localities and states levy taxes on the personal property or equipment owned by a business. They can be on assets ranging from cars to machinery and equipment to office furniture and fixtures, but are separate from real property taxes, which are taxes on land and buildings.

Businesses remitted over $839 billion in state and local taxes in fiscal year 2020, of which $330 billion (39.2 percent) was for property taxes. The property taxes included tax on real, personal, and utility property owned by businesses (Phillips et al. 2021). Since property taxes can be a large burden on business, they can have a significant effect on location decisions.

29 See Scott Drenkard and Joseph Bishop-Henchman, "Cigarette Taxes and Cigarette Smuggling by State, 2014" Tax Foundation, Jan. 17, 2017.

30 See Matt Moon, "How do Americans Feel about Taxes Today?" *Tax Foundation's 2009 Survey of U.S. Attitudes on Taxes, Government Spending and Wealth Distribution*, Tax Foundation, Apr. 8, 2009.

TABLE 6.

Property Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	13	13	21	17	16	19	19	21	20	5.31	18	5.33	2	0.02
Alaska	29	30	19	25	40	23	25	25	26	5.18	26	5.17	0	-0.01
Arizona	11	11	12	11	11	11	11	10	11	5.68	11	5.76	0	0.08
Arkansas	23	24	27	24	24	27	27	28	29	5.12	27	5.17	2	0.05
California	16	16	13	14	14	13	15	14	14	5.44	19	5.33	-5	-0.11
Colorado	39	39	34	33	32	33	33	33	34	4.70	36	4.51	-2	-0.19
Connecticut	50	50	50	50	50	50	50	50	50	2.32	50	2.27	0	-0.05
Delaware	5	5	5	7	7	4	4	4	4	6.31	4	6.28	0	-0.03
Florida	22	23	17	13	12	12	12	12	12	5.58	12	5.55	0	-0.03
Georgia	28	28	25	26	27	30	31	27	27	5.15	28	5.11	-1	-0.04
Hawaii	20	20	16	18	19	22	28	30	31	5.00	32	4.86	-1	-0.14
Idaho	2	2	2	2	2	3	3	3	3	6.47	3	6.45	0	-0.02
Illinois	45	45	47	46	47	45	44	45	45	3.87	44	3.96	1	0.09
Indiana	3	3	3	3	3	2	2	2	1	6.51	2	6.46	-1	-0.05
Iowa	37	37	38	39	37	38	38	38	39	4.35	40	4.30	-1	-0.05
Kansas	26	26	29	30	30	31	18	19	19	5.35	17	5.35	2	0.00
Kentucky	17	17	23	22	20	24	23	24	24	5.20	24	5.23	0	0.03
Louisiana	19	19	18	27	22	28	29	26	25	5.19	23	5.26	2	0.07
Maine	38	38	39	40	39	40	40	40	41	4.24	47	3.72	-6	-0.52
Maryland	41	41	41	41	42	41	41	43	43	4.12	42	4.15	1	0.03
Massachusetts	44	44	45	45	45	46	45	46	46	3.73	46	3.81	0	0.08
Michigan	27	27	28	28	26	26	26	22	23	5.22	25	5.22	-2	0.00
Minnesota	30	31	32	32	31	32	32	32	32	4.93	31	4.91	1	-0.02
Mississippi	34	34	37	37	36	37	37	37	38	4.43	37	4.45	1	0.02
Missouri	12	12	14	10	9	9	9	8	7	5.99	7	6.03	0	0.04
Montana	15	15	22	19	28	20	21	20	22	5.23	21	5.31	1	0.08
Nebraska	36	36	35	38	38	39	39	41	40	4.28	39	4.34	1	0.06
Nevada	7	7	7	6	6	5	6	5	5	6.17	5	6.19	0	0.02
New Hampshire	43	43	44	44	44	47	46	47	47	3.70	43	4.01	4	0.31
New Jersey	48	48	48	47	49	44	47	44	44	3.87	45	3.87	-1	0.00
New Mexico	1	1	1	1	1	1	1	1	2	6.50	1	6.51	1	0.01
New York	47	47	46	48	46	48	48	49	49	2.89	49	2.83	0	-0.06
North Carolina	10	10	26	29	29	14	13	13	13	5.52	13	5.53	0	0.01
North Dakota	4	4	4	4	4	6	7	11	10	5.70	9	5.91	1	0.21
Ohio	8	8	6	5	5	7	5	6	6	6.12	6	6.13	0	0.01
Oklahoma	21	22	24	21	21	29	30	31	30	5.06	30	5.02	0	-0.04
Oregon	18	18	11	16	17	16	20	16	17	5.37	20	5.31	-3	-0.06
Pennsylvania	32	32	30	15	15	17	16	15	15	5.43	16	5.46	-1	0.03
Rhode Island	46	46	43	43	43	42	42	42	42	4.19	41	4.28	1	0.09
South Carolina	35	35	36	36	35	36	35	35	36	4.60	35	4.60	1	0.00
South Dakota	9	9	10	12	13	15	14	23	18	5.36	14	5.53	4	0.17
Tennessee	40	40	40	35	34	35	34	34	33	4.73	33	4.76	0	0.03
Texas	33	33	33	34	33	34	36	36	37	4.47	38	4.35	-1	-0.12
Utah	6	6	8	8	8	8	8	7	8	5.98	8	5.94	0	-0.04
Vermont	49	49	49	49	48	49	49	48	48	3.24	48	3.23	0	-0.01
Virginia	24	25	20	23	23	25	24	29	28	5.14	29	5.11	-1	-0.03
Washington	14	14	15	20	18	18	17	18	21	5.27	22	5.30	-1	0.03
West Virginia	25	21	9	9	10	10	10	9	9	5.77	10	5.80	-1	0.03
Wisconsin	31	29	31	31	25	21	22	17	16	5.40	15	5.47	1	0.07
Wyoming	42	42	42	42	41	43	43	39	35	4.61	34	4.60	1	-0.01
District of Columbia	46	50	40	47	48	48	48	49	49	2.95	49	2.84	0	-0.11

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

PROPERTY TAX

Mark, McGuire, and Papke (2000) find taxes that vary from one location to another within a region could be uniquely important determinants of intraregional location decisions. They find that higher rates of two business taxes–the sales tax and the personal property tax–are associated with lower employment growth. They estimate that a tax hike on personal property of one percentage point reduces annual employment growth by 2.44 percentage points.

Bartik (1985), finding that property taxes are a significant factor in business location decisions, estimates that a 10 percent increase in business property taxes decreases the number of new plants opening in a state by between 1 and 2 percent. Bartik (1989) backs up his earlier findings by concluding that higher property taxes negatively affect the establishment of small businesses. He elaborates that the particularly strong negative effect of property taxes occurs because they are paid regardless of profits, and many small businesses are not profitable in their first few years, so high property taxes would be more influential than profit-based taxes on the start-up decision.

States which keep statewide property taxes low better position themselves to attract business investment. Localities competing for business can put themselves at a greater competitive advantage by keeping personal property taxes low.

Taxes on capital stock, tangible and intangible property, inventory, real estate transfers, estates, inheritance, and gifts are also included in the property tax component of the *Index*. The states that score the best on property tax are New Mexico, Indiana, Idaho, Delaware, Nevada, and Ohio. These states generally have low rates of property tax, whether measured per capita or as a percentage of income. They also avoid distortionary taxes like estate, inheritance, gift, and other wealth taxes. States that score poorly on the property tax component are Connecticut, New York, Vermont, Maine, Massachusetts, New Jersey, and Illinois. These states generally have high property tax rates and levy several wealth-based taxes.

The property tax portion of the *Index* is composed of two equally weighted subindices devoted to measuring the economic impact of both rates and bases. The rate subindex consists of property tax collections (measured both per capita and as a percentage of personal income) and capital stock taxes. The base portion consists of dummy variables detailing whether each state levies wealth taxes such as inheritance, estate, gift, inventory, intangible property, and other similar taxes.[31]

Property Tax Rate

The property tax rate subindex consists of property tax collections per capita (40 percent of the subindex score), property tax collections as a percent of personal income (40 percent of the subindex score), and capital stock taxes (20 percent of the subindex score). The heavy weighting of tax collections is due to their importance to businesses and individuals and their increasing size and visibility to all taxpayers. Both are included to gain

31 Though not included directly in this *Index* for data availability reasons, tangible personal property taxes can also affect business decisions. For a comprehensive review of these taxes and reform recommendations, see Joyce Errecart, Ed Gerrish, and Scott Drenkard, "States Moving Away from Taxes on Tangible Personal Property," Tax Foundation, Oct. 4, 2012.

a better understanding of how much each state collects in proportion to its population and its income. Tax collections as a percentage of personal income forms an effective rate that gives taxpayers a sense of how much of their income is devoted to property taxes, and the per capita figure lets them know how much in actual dollar terms they pay in property taxes compared to residents of other states.

While these measures are not ideal–having effective tax rates of personal and real property for both businesses and individuals would be preferable–they are the best measures available due to the significant data constraints posed by property tax collections. Since a high percentage of property taxes are levied on the local level, there are countless jurisdictions. The sheer number of different localities makes data collection almost impossible. The few studies that tackle the subject use representative towns or cities instead of the entire state. Thus, the best source for data on property taxes is the Census Bureau, because it can compile the data and reconcile definitional problems.

States that maintain low effective rates and low collections per capita are more likely to promote growth than states with high rates and collections.

Property Tax Collections Per Capita. Property tax collections per capita are calculated by dividing property taxes collected in each state (obtained from the Census Bureau) by population. The states with the highest property tax collections per capita are New Jersey ($3,513), New Hampshire ($3,246), Connecticut ($3,215), New York ($3,180), and Vermont ($2,938). The states that collect the least per capita are Alabama ($620), Arkansas ($788), Oklahoma ($826), Tennessee ($834), and Kentucky ($873).

Effective Property Tax Rate. Property tax collections as a percent of personal income are derived by dividing the Census Bureau's figure for total property tax collections by personal income in each state. This provides an effective property tax rate. States with the highest effective rates and therefore the worst scores are Maine (5.21 percent), Vermont (4.82 percent), New Jersey (4.80 percent), New Hampshire (4.79 percent), New York (4.36 percent), and Connecticut (4.20 percent). States that score well with low effective tax rates are Alabama (1.37 percent), Tennessee (1.61 percent), Arkansas (1.69 percent), Oklahoma (1.75 percent), Louisiana (1.80 percent), and Delaware (1.86 percent).

Capital Stock Tax Rate. Capital stock taxes (sometimes called franchise taxes) are levied on the wealth of a corporation, usually defined as net worth. They are often levied in addition to corporate income taxes, adding a duplicate layer of taxation and compliance for many corporations. Corporations that find themselves in financial trouble must use their limited cash flow to pay their capital stock tax. In assessing capital stock taxes, the subindex accounts for three variables: the capital stock tax rate; the maximum payment; and whether any capital stock tax is imposed in addition to a corporate income tax, or whether the business is liable for the higher of the two. The capital stock tax subindex is 20 percent of the total rate subindex.

This variable measures the rate of taxation as levied by the 16 states with a capital stock tax. Legislators have come to realize the damaging effects of capital stock taxes, and a handful of states are reducing or repealing them. Kansas completed the phaseout of its tax in 2011. West Virginia and Rhode Island fully phased out their capital stock taxes as of January 1, 2015, and Pennsylvania phased out its capital stock tax in 2016. New York finished a phaseout of the state's capital stock tax as of January 1, 2021, but the legislature decided to temporarily reinstate the tax due to coronavirus-related budget concerns. Similarly, Illinois had plans to begin a phaseout in 2020, completing the process in 2024. After two years, Illinois reversed its phaseout plan and opted instead to freeze the franchise tax exemption at $1,000. Connecticut plans to phase out its tax by January 1, 2024. States with the highest capital stock tax rates include Arkansas (0.30 percent), Louisiana (0.275 percent), Massachusetts (0.26 percent), Connecticut (0.21 percent), Tennessee (0.25 percent), and New York (0.1875 percent).

Maximum Capital Stock Tax Payment. Eight states mitigate the negative economic impact of the capital stock tax by placing a cap on the maximum capital stock tax payment. These states are Alabama, Connecticut, Delaware, Georgia, Illinois, Nebraska, New York, and Oklahoma, and among states with a capital stock tax, they receive the highest score on this variable.

Capital Stock Tax versus Corporate Income Tax. Some states mitigate the negative economic impact of the capital stock tax by allowing corporations to pay the higher of their capital stock tax or their corporate tax. These states (Connecticut, Massachusetts, and New York) are given credit for this provision. States that do not have a capital stock tax get the best scores in this subindex while the states that force companies to pay both score the worst.

Property Tax Base

This subindex is composed of dummy variables listing the different types of property taxes each state levies. Seven taxes are included and each is equally weighted. Delaware, Idaho, Indiana, Ohio, Alaska, New Mexico, North Dakota, Nevada, New Hampshire, New Jersey, North Carolina, and Pennsylvania score the best because they each only levy one of the seven taxes. Connecticut, Maryland, and Kentucky receive the worst scores because they impose many of these taxes.

Business Tangible Property Tax. This variable rewards states which remove, or substantially remove, business tangible personal property from their tax base. Taxes on tangible personal property, meaning property that can be touched or moved (as opposed to real estate), are a source of tax complexity and nonneutrality, incentivizing firms to change their investment decisions and relocate to avoid the tax. Eight states (Delaware, Hawaii, Illinois, Iowa, New Jersey, New York, Ohio, and Pennsylvania) exempt all tangible personal property from taxation, while another four states (Minnesota, New Hampshire, North Dakota, and South Dakota) exempt most such property from taxation except for select industries that are centrally assessed.

Intangible Property Tax. This dummy variable gives low scores to those states that impose taxes on intangible personal property. Intangible personal property includes stocks, bonds, and other intangibles such as trademarks. This tax can be highly detrimental to businesses that hold large amounts of their own or other companies' stock and that have valuable trademarks. Eight states levy this tax in various degrees: Alabama, Iowa, Kentucky, Louisiana, Mississippi, South Dakota, Tennessee, and Texas.[32]

Inventory Tax. Levied on the value of a company's inventory, the inventory tax is especially harmful to large retail stores and other businesses that store large amounts of merchandise. Inventory taxes are highly distortionary, because they force companies to make decisions about production that are not entirely based on economic principles but rather on how to pay the least amount of tax on goods produced. Inventory taxes also create strong incentives for companies to locate inventory in states where they can avoid these harmful taxes. Fourteen states levy some form of inventory tax.

Split Roll Taxation. In some states, different classes of property—like residential, commercial, industrial, and agricultural property—face distinct tax burdens, either because they are taxed at different rates or are exposed to different assessment ratios. When such distinctions exist, the state is said to have a split (rather than unified) property tax roll. The *Index* assesses whether states utilize split roll taxation, which tends to discriminate against business property, and what ratio exists between commercial and residential property taxation.

Property Tax Limitation Regimes. Most states limit the degree to which localities can raise property taxes, but these property tax limitation regimes vary dramatically. Broadly speaking, there are three types of property tax limitations. Assessment limits restrict the rate at which a given property's assessed value can increase each year. (It often, but not always, resets upon sale or change of use, and sometimes resets when substantial improvements are made.) Rate limits, as the name implies, either cap the allowable rate or restrict the amount by which the rate can be raised in a given year. Finally, levy limits impose a restriction on the growth of total collections (excluding those from new construction), implementing or necessitating rate reductions if revenues exceed the allowable growth rate. Most limitation regimes permit voter overrides. The *Index* penalizes states for imposing assessment limitations, which distort property taxation, leading to similar properties facing highly disparate effective rates of taxation and influencing decisions about property utilization. It also rewards states for adopting either a rate or levy limit, or both.

Asset Transfer Taxes (Estate, Inheritance, and Gift Taxes). Four taxes levied on the transfer of assets are part of the property tax base. These taxes, levied in addition to the federal estate tax, all increase the cost and complexity of transferring wealth and hurt a state's business climate. These harmful effects can be particularly acute in the case of small, family-owned businesses if they do not have the liquid assets necessary to

32 Some states, like Kentucky, are often considered not to impose an intangible property tax but continue to levy a low millage on financial deposits.

pay the estate's tax liability.[33] The four taxes are real estate transfer taxes, estate taxes, inheritance taxes, and gift taxes. Thirty-five states and the District of Columbia levy taxes on the transfer of real estate, adding to the cost of purchasing real property and increasing the complexity of real estate transactions. This tax is harmful to businesses that transfer real property often.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) lowered the federal estate tax rate through 2009 and eliminated it entirely in 2010. Prior to 2001, most states levied an estate tax that piggybacked on the federal system, because the federal tax code allowed individuals to take a dollar-for-dollar tax credit for state estate taxes paid. In other words, states essentially received free tax collections from the estate tax, and individuals did not object because their total tax liability was unchanged. EGTRRA eliminated this dollar-for-dollar credit system, replacing it with a tax deduction.

Consequently, over the past decade, some states enacted their own estate tax while others repealed their estate taxes. Some states have provisions reintroducing the estate tax if the federal dollar-for-dollar credit system is revived. This would have happened in 2011, as EGTRRA expired and the federal estate tax returned to pre-2001 levels. However, in late 2010, Congress reenacted the estate tax for 2011 and 2012 but with higher exemptions and a lower rate than pre-2001 law and maintained the deduction for state estate taxes. The tax reform law of 2017 raised the federal exemption still further. Thirty-eight states receive a high score for either (1) remaining coupled to the federal credit and allowing their state estate tax to expire or (2) not enacting their own estate tax, including two which repealed their estate tax this year. Twelve states and the District of Columbia have maintained an estate tax either by linking their tax to the pre-EGTRRA credit or by creating their own stand-alone system. These states score poorly.

Each year, some businesses, especially those that have not spent a sufficient sum on estate tax planning and on large insurance policies, find themselves unable to pay their estate taxes, either federal or state. Usually they are small- to medium-sized family-owned businesses where the death of the owner occasions a surprisingly large tax liability.

Inheritance taxes are similar to estate taxes, but they are levied on the heir of an estate instead of on the estate itself. Therefore, a person could inherit a family-owned company from his or her parents and be forced to downsize it, or sell part or all of it, in order to pay the heir's inheritance tax. Six states have inheritance taxes and are punished in the *Index*, because the inheritance tax causes economic distortions. Maryland has both an estate tax and an inheritance tax, the only state to impose both after New Jersey completed the repeal of its estate tax.

Connecticut is the only state with a gift tax, and it scores poorly. Gift taxes are designed to stop individuals' attempts to avoid the estate tax by giving their estates away before they die. Gift taxes have a negative impact on a state's business tax climate because they also heavily impact individuals who have sole proprietorships, S corporations, and LLCs.

33 For a summary of the effects of the estate tax on business, see Congressional Budget Office, "Effects of the Federal Estate Tax on Farms and Small Businesses," July 2005. For a summary on the estate tax in general, see David Block and Scott Drenkard, "The Estate Tax: Even Worse Than Republicans Say," Tax Foundation, Sept. 4, 2012.

UNEMPLOYMENT INSURANCE TAXES

Unemployment insurance (UI) is a social insurance program jointly operated by the federal and state governments. Taxes are paid by employers into the UI program to finance benefits for workers recently unemployed. Compared to the other major taxes assessed in the *State Business Tax Climate Index*, UI taxes are much less well-known. Every state has one, and all 50 of them are complex, variable-rate systems that impose different rates on different industries and different bases depending upon such factors as the health of the state's UI trust fund.[34]

One of the worst aspects of the UI tax system is that financially troubled businesses, for which layoffs may be a matter of survival, actually pay higher marginal rates as they are forced into higher tax rate schedules. In the academic literature, this has long been called the "shut-down effect" of UI taxes: failing businesses face climbing UI taxes, with the result that they fail sooner.

The unemployment insurance tax component of the *Index* consists of two equally weighted subindices, one that measures each state's rate structure and one that focuses on the tax base. Unemployment insurance taxes comprise 9.8 percent of a state's final *Index* score.

Overall, the states with the least damaging UI taxes are Oklahoma, Florida, Delaware, Louisiana, Mississippi, and Michigan. Comparatively speaking, these states have rate structures with lower minimum and maximum rates and a wage base at the federal level. In addition, they have simpler experience formulas and charging methods, and they have not complicated their systems with benefit add-ons and surtaxes.

Conversely, the states with the worst UI taxes are Massachusetts, Rhode Island, Kentucky, Idaho, and Maryland. These states tend to have rate structures with high minimum and maximum rates and wage bases above the federal level. They also tend to feature more complicated experience formulas and charging methods, and have added benefits and surtaxes to their systems.

Unemployment Insurance Tax Rate

UI tax rates in each state are based on a schedule of rates ranging from a minimum rate to a maximum rate. The rate for any particular business is dependent upon the business's experience rating: businesses with the best experience ratings will pay the lowest possible rate on the schedule while those with the worst ratings pay the highest. The rate is applied to a taxable wage base (a predetermined fraction of an employee's wage) to determine UI tax liability.

34 See generally Joseph Bishop-Henchman, "Unemployment Insurance Taxes: Options for Program Design and Insolvent Trust Funds," Tax Foundation, Oct. 17, 2011.

UNEMPLOYMENT INSURANCE TAX

TABLE 7.

Unemployment Insurance Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	25	26	14	11	12	18	15	18	5.16	19	5.15	-1	-0.01
Alaska	26	24	22	29	24	34	45	44	44	4.31	44	4.33	0	0.02
Arizona	2	4	5	11	15	13	6	8	14	5.50	14	5.47	0	-0.03
Arkansas	28	40	43	30	31	33	23	23	20	5.13	20	5.14	0	0.01
California	14	14	13	16	13	17	22	21	24	5.07	24	5.03	0	-0.04
Colorado	38	35	34	42	34	39	42	40	40	4.52	42	4.45	-2	-0.07
Connecticut	21	20	20	21	19	23	21	22	23	5.09	23	5.07	0	-0.02
Delaware	1	3	3	3	3	3	3	3	2	5.96	2	5.99	0	0.03
Florida	4	2	2	2	2	2	2	2	4	5.87	3	5.92	1	0.05
Georgia	39	39	39	35	37	37	38	38	37	4.69	35	4.70	2	0.01
Hawaii	32	28	24	24	26	26	28	25	31	4.88	30	4.90	1	0.02
Idaho	47	46	45	46	45	47	47	47	46	4.05	47	4.04	-1	-0.01
Illinois	41	37	37	38	41	41	39	42	42	4.50	43	4.41	-1	-0.09
Indiana	10	9	15	10	10	11	25	27	26	4.93	27	4.93	-1	0.00
Iowa	33	33	35	34	33	32	34	36	34	4.80	33	4.81	1	0.01
Kansas	7	8	11	12	12	15	14	14	16	5.41	15	5.42	1	0.01
Kentucky	46	45	46	48	47	46	48	48	48	3.87	48	4.01	0	0.14
Louisiana	5	5	4	9	4	4	4	4	6	5.73	6	5.73	0	0.00
Maine	37	42	41	44	43	24	31	32	35	4.79	38	4.60	-3	-0.19
Maryland	31	21	28	26	23	28	32	33	47	4.03	41	4.46	6	0.43
Massachusetts	48	48	47	49	49	50	50	50	50	3.41	50	3.32	0	-0.09
Michigan	44	47	48	47	48	48	17	18	7	5.66	8	5.66	-1	0.00
Minnesota	34	29	29	28	36	25	33	31	28	4.90	34	4.80	-6	-0.10
Mississippi	8	7	8	5	5	5	5	5	5	5.79	5	5.80	0	0.01
Missouri	13	13	12	7	7	8	9	7	3	5.91	4	5.92	-1	0.01
Montana	20	18	18	19	20	21	20	20	19	5.15	18	5.16	1	0.01
Nebraska	12	12	10	8	9	9	11	11	11	5.56	11	5.56	0	0.00
Nevada	43	43	42	43	44	44	46	46	45	4.19	46	4.19	-1	0.00
New Hampshire	45	44	44	41	42	43	44	43	43	4.32	45	4.32	-2	0.00
New Jersey	30	32	32	25	35	31	30	30	33	4.86	32	4.85	1	-0.01
New Mexico	11	10	7	17	16	10	8	9	8	5.64	9	5.65	-1	0.01
New York	24	31	33	32	29	30	37	37	36	4.76	40	4.50	-4	-0.26
North Carolina	9	11	9	6	6	7	10	10	10	5.58	10	5.59	0	0.01
North Dakota	16	16	16	15	14	14	13	13	9	5.63	7	5.68	2	0.05
Ohio	6	6	6	4	8	6	7	6	13	5.54	13	5.52	0	-0.02
Oklahoma	3	1	1	1	1	1	1	1	1	6.05	1	6.07	0	0.02
Oregon	29	30	27	33	30	36	35	35	39	4.62	36	4.69	3	0.07
Pennsylvania	50	50	50	45	50	45	41	39	22	5.09	22	5.08	0	-0.01
Rhode Island	49	49	49	50	46	49	49	49	49	3.76	49	3.77	0	0.01
South Carolina	35	36	31	37	28	27	26	24	29	4.90	29	4.91	0	0.01
South Dakota	40	41	40	40	38	38	43	41	38	4.67	37	4.68	1	0.01
Tennessee	25	26	25	23	22	22	24	26	21	5.09	21	5.10	0	0.01
Texas	15	15	14	13	25	18	12	12	12	5.55	12	5.55	0	0.00
Utah	19	22	19	22	21	16	15	17	17	5.39	16	5.40	1	0.01
Vermont	17	17	17	20	18	20	16	16	15	5.48	17	5.36	-2	-0.12
Virginia	42	38	38	39	40	42	40	45	41	4.52	39	4.52	2	0.00
Washington	18	19	21	18	17	19	19	19	25	5.02	25	5.02	0	0.00
West Virginia	22	23	23	27	27	29	29	28	27	4.93	26	4.95	1	0.02
Wisconsin	27	27	36	36	39	40	36	34	30	4.88	31	4.90	-1	0.02
Wyoming	36	34	30	31	32	35	27	29	32	4.86	28	4.92	4	0.06
District of Columbia	25	27	27	27	29	32	34	36	39	4.66	38	4.64	1	-0.02

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Multiple rates and rate schedules can affect neutrality as states attempt to balance the dual UI objectives of spreading the cost of unemployment to all employers and ensuring high-turnover employers pay more.

Overall, the states with the best score on this rate subindex are Florida, Nebraska, Louisiana, Missouri, South Carolina, Mississippi, and Georgia. Generally, these states have low minimum and maximum tax rates on each schedule and a wage base at or near the federal level. The states with the worst scores are New York, Massachusetts, Washington, Rhode Island, Alaska, and Oregon.

The subindex gives equal weight to two factors: the actual rate schedules in effect in the most recent year, and the statutory rate schedules that can potentially be implemented at any time depending on the state of the economy and the UI fund.

Tax Rates Imposed in the Most Recent Year

Minimum Tax Rate. States with lower minimum rates score better. The minimum rates in effect in the most recent year range from zero percent (in Iowa, Missouri, Nebraska, South Dakota, and Wisconsin) to 2.10 percent (in New York).

Maximum Tax Rate. States with lower maximum rates score better. The maximum rates in effect in the most recent year range from 5.4 percent (in Alaska, Florida, Hawaii, Idaho, Nebraska, Nevada, and Oregon) to 20.93 percent (in Arizona).

Taxable Wage Base. California, Florida, and Tennessee receive the best scores in this variable with a taxable wage base of $7,000—in line with the federal taxable wage base. The state with the highest taxable bases and, thus, the worst score on this variable, is Washington ($62,500).

Potential Rates

Due to the effect of business and seasonal cycles on UI funds, states will sometimes change UI tax rate schedules. When UI trust funds are flush, states will trend toward their lower rate schedules ("most favorable schedules"); however, when UI trust funds are low, states will trend toward their higher rate schedules ("least favorable schedules").

Most Favorable Schedule: Minimum Tax Rate. States receive the best score in this variable with a minimum tax rate of zero, which they implement when unemployment is low and the UI fund is flush. The minimum rate on the most favorable schedule ranges from zero in 22 states to 1.0 percent in Alaska.

Most Favorable Schedule: Maximum Tax Rate. The lowest maximum rate of 5.4 percent is imposed by 22 states and the District of Columbia. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Wisconsin (10.7 percent).

Least Favorable Schedule: Minimum Tax Rate. Thirteen states receive the best score on this variable with a minimum tax rate of zero percent. The state with the highest minimum tax rate and, thus, the worst minimum tax score, is Hawaii (2.4 percent).

Least Favorable Schedule: Maximum Tax Rate. Twelve states receive the best score in this variable with a comparatively low maximum tax rate of 5.4 percent. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Massachusetts (18.55 percent).

Unemployment Insurance Tax Base

The UI base subindex scores states on how they determine which businesses should pay the UI tax and how much, as well as other UI-related taxes for which businesses may also be liable.

The states that receive the best scores on this subindex are Oklahoma, Delaware, Vermont, New Mexico, and North Dakota. In general, these states have relatively simple experience formulas, they exclude more factors from the charging method, and they enforce fewer surtaxes.

States that receive the worst scores are Virginia, Nevada, Idaho, Maine, and Georgia. In general, they have more complicated experience formulas, exclude fewer factors from the charging method, and have complicated their systems with add-ons and surtaxes. The three factors considered in this subindex are experience rating formulas (40 percent of the subindex score), charging methods (40 percent of the subindex score), and a host of smaller factors aggregated into one variable (20 percent of the subindex score).

Experience Rating Formula. A business's experience rating formula determines the rate the firm must pay—whether it will lean toward the minimum rate or maximum rate of the particular rate schedule in effect in the state at that time.

There are four basic experience formulas: contribution, benefit, payroll, and state experience. The first three experience formulas–contribution, benefit, and payroll–are based solely on the business's experience and are therefore nonneutral by design.[35] However, the final variable–state experience–is a positive mitigating factor because it is based on statewide experience. In other words, the state experience is not tied to the experience of any one business; therefore, it is a more neutral factor. This subindex penalizes states that depend on the contribution, benefit, and payroll experience variables while rewarding states with the state experience variable.

Charging Methods and Benefits Excluded from Charging. A business's experience rating will vary depending on which charging method the state government uses. When a former employee applies for unemployment benefits, the benefits paid to the employee must be charged to a previous employer. There are three basic charging methods:

35 Alaska is the only state to use the payroll experience method. This method does not use benefit payments in the formula but instead the variation in an employer's payroll from quarter to quarter. This is a violation of tax neutrality since any decision by the employer or employee that would affect payroll may trigger higher UI tax rates.

- *Charging Most Recent or Principal Employer:* Nine states charge all the benefits to one employer, usually the most recent.

- *Charging Base-Period Employers in Inverse Chronological Order:* Six states charge all base-period employers in inverse chronological order. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them, with the most recent employer being charged the most.

- *Charging in Proportion to Base-Period Wages:* Thirty-four states and the District of Columbia charge in proportion to base-period wages. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them in proportion to the wages they paid.

None of these charging methods could be called neutral, but at the margin, charging the most recent or principal employer is the least neutral because the business faced with the necessity of laying off employees knows it will bear the full benefit charge. The most neutral of the three is the "charging in proportion to base-period wages" since there is a higher probability of sharing the benefit charges with previous employers.

As a result, the states that charge in proportion to base-period wages receive the best score. The states that charge the most recent or principal employer receive the worst score. The states that charge base-period employers in inverse chronological order receive a median score.

Many states also recognize that certain benefit costs should not be charged to employers, especially if the separation is beyond the employer's control. Therefore, this subindex also accounts for six types of exclusions from benefit charges:

- Benefit award reversed
- Reimbursements on combined wage claims
- Voluntary leaving
- Discharge for misconduct
- Refusal of suitable work
- Continues to work for employer on part-time basis

States are rewarded for each of these exclusions because they nudge a UI system toward neutrality. For instance, if benefit charges were levied for employees who voluntarily quit, then industries with high turnover rates, such as retail, would be hit disproportionately harder. States that receive the best scores in this category are Connecticut, Delaware, Louisiana, Missouri, Ohio, and Vermont. On the other hand, the states that receive the worst scores are Virginia, Nevada, Georgia, Idaho, Kentucky, Maine, Illinois, New Hampshire, Rhode Island, and South Carolina. Most states charge the most recent or principal employer and forbid most benefit exclusions.

Solvency Tax. These taxes are levied on employers when a state's unemployment fund falls below some defined level. Twenty-seven states have a solvency tax on the books, though they fall under different names, such as solvency adjustment tax (Alaska), supplemental assessment tax (Delaware), subsidiary tax (New York), and fund balance factor (Virginia).

Taxes for Socialized Costs or Negative Balance Employer. These are levied on employers when the state desires to recover benefit costs above and beyond the UI tax collections based on the normal experience rating process. Nine states have these taxes on the books, though they fall under different names, such as shared cost assessment tax (Alabama) and social cost factor tax (Washington).

Loan and Interest Repayment Surtaxes. Levied on employers when a loan is taken from the federal government or when bonds are sold to pay for benefit costs, these taxes are of two general types. The first is a tax to pay off the federal loan or bond issue. The second is a tax to pay the interest on the federal loan or bond issue. States are not allowed to pay interest costs directly from the state's unemployment trust fund. Twenty-eight states and the District of Columbia have these taxes on the books, though they fall under several names, such as advance interest tax and bond assessment tax (Colorado) and temporary emergency assessment tax (Delaware).

Reserve Taxes. Reserve taxes are levied on employers, to be deposited in a reserve fund separate from the unemployment trust fund. Since the fund is separate, the interest earned on it is often used to create other funds for purposes such as job training and paying the costs of the reserve tax's collection. Four states have these taxes on the books: Idaho and Iowa (reserve tax), Nebraska (state UI tax), and North Carolina (reserve fund tax).

Surtaxes for UI Administration or Non-UI Purposes. Twenty-nine states and the District of Columbia levy surtaxes on employers, usually to fund administration but sometimes for job training or special improvements in technology. They are often deposited in a fund outside of the state's unemployment fund. Some of the names they go by are the state training and employment program (Arkansas), reemployment service fund tax (New York), wage security tax (Oregon), and investment in South Dakota future fee (South Dakota).

Temporary Disability Insurance (TDI). A handful of states–California, Hawaii, New Jersey, and New York–have established a temporary disability insurance (TDI) program that augments the UI program by extending benefits to those unable to work because of sickness or injury. No separate tax funds these programs; the money comes right out of the states' unemployment funds. Because the balance of the funds triggers various taxes, the TDIs are included as a negative factor in the calculation of this subindex.

Voluntary Contributions. Twenty-six states allow businesses to make voluntary contributions to the unemployment trust fund. In most cases, these contributions are rewarded with a lower rate schedule, often saving the business more money in taxes than was paid through the contribution. The *Index* rewards states that allow voluntary contributions because firms are able to pay when they can best afford to instead of when they are struggling. This provision helps to mitigate the nonneutralities of the UI tax.

Time Period to Qualify for Experience Rating. Newly formed businesses, naturally, do not qualify for an experience rating because they have no significant employment history on which to base the rating. Federal rules stipulate that states can levy a "new employer" rate for one to three years, but no less than one year. From a neutrality perspective, however, this new employer rate is nonneutral in almost all cases since the rate is higher than the lowest rate schedule. The longer this rate is in effect, the worse the nonneutrality. As such, the *Index* rewards states with the minimum one year required to earn an experience rating and penalizes states that require the full three years.

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TABLE 8.

State Corporate Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets	Gross Receipts Tax Rate (a)
Alabama	6.5%	>	$0	
Alaska	0.0%	>	$0	
	2.0%	>	$25,000	
	3.0%	>	$49,000	
	4.0%	>	$74,000	
	5.0%	>	$99,000	
	6.0%	>	$124,000	
	7.0%	>	$148,000	
	8.0%	>	$173,000	
	9.0%	>	$198,000	
	9.4%	>	$222,000	
Arizona	4.9%	>	$0	
Arkansas	1.0%	>	$0	
	2.0%	>	$3,000	
	3.0%	>	$6,000	
	5.0%	>	$11,000	
	5.9%	>	$25,000	
California	8.84%	>	$0	
Colorado	4.55%	>	$0	
Connecticut (b)	8.25%	>	$0	
Delaware	8.7%	>	$0	0.0945% - 0.7468% (c)
Florida	5.5%	>	$0	
Georgia	5.75%	>	$0	
Hawaii	4.4%	>	$0	
	5.4%	>	$25,000	
	6.4%	>	$100,000	
Idaho	6.0%	>	$0	
Illinois (d)	9.5%	>	$0	
Indiana	4.9%	>	$0	
Iowa	5.5%	>	$0	
	9.0%	>	$100,000	
	9.8%	>	$250,000	
Kansas	4.0%	>	$0	
	7.0%	>	$50,000	
Kentucky	5.0%	>	$0	
Louisiana	3.5%	>	$0	
	5.5%	>	$50,000	
	7.5%	>	$150,000	
Maine	3.5%	>	$0	
	7.93%	>	$350,000	
	8.33%	>	$1,050,000	
	8.93%	>	$3,500,000	
Maryland	8.25%	>	$0	
Massachusetts	8.0%	>	$0	
Michigan	6.0%	>	$0	
Minnesota	9.8%	>	$0	
Mississippi	3.0%	>	$0	
	4.0%	>	$5,000	
	5.0%	>	$10,000	
Missouri	4.0%	>	$0	
Montana	6.75%	>	$0	
Nebraska	5.58%	>	$0	
	7.50%	>	$100,000	
Nevada (e)	None			0.051% - 0.331% (c)
New Hampshire	7.6%	>	$0	
New Jersey (f, g)	6.5%	>	$0	
	7.5%	>	$50,000	
	9.0%	>	$100,000	
	11.5%	>	$1,000,000	
New Mexico	4.8%	>	$0	
	5.9%	>	$500,000	
New York (f)	6.50%	>	$0	
	7.25%	>	$5,000,000	

TABLE 8, CONTINUED.

State Corporate Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets	Gross Receipts Tax Rate (a)
North Carolina	2.5%	>	$0	
North Dakota	1.41%	>	$0	
	3.55%	>	$25,000	
	4.31%	>	$50,000	
Ohio	(a)			0.26%
Oklahoma	6.0%	>	$0	
Oregon	6.6%	>	$0	0.57%
	7.6%	>	$1,000,000	
Pennsylvania	9.99%	>	$0	
Rhode Island	7.0%	>	$0	
South Carolina	5.0%	>	$0	
South Dakota	None			
Tennessee	6.5%	>	$0	0.02%-0.3% (c)
Texas	(a)			0.331% - 0.75% (c)
Utah	4.85%	>	$0	
Vermont	6.0%	>	$0	
	7.0%	>	$10,000	
	8.5%	>	$25,000	
Virginia	6.0%	>	$0	0.02% - 0.58% (c)
Washington	(a)			0.13% - 3.3% (c)
West Virginia	6.5%	>	$0	
Wisconsin	7.9%	>	$0	
Wyoming	None			
District of Columbia	8.25%	>	$0	

Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax (see Table 12). Some states impose special rates on financial institutions.

(a) While many states collect gross receipts taxes from public utilities and other sectors, and some states label their sales tax as a gross receipts tax, we show only those state gross receipts taxes that broadly tax all business as a percentage of gross receipts: the Delaware Manufacturers & Merchants' License Tax, the Nevada Commerce Tax, the Ohio Commercial Activities Tax, the Tennessee Business Tax, the Texas Margin Tax, the Virginia locally-levied Business/Professional/Occupational License Tax, and the Washington Business & Occupation Tax. Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax, while Delaware, Tennessee, and Virginia have a gross receipts tax in addition to the corporate income tax.

(b) Connecticut's rate includes a 10% surtax that effectively increases the rate from 7.5% to 8.25%. The surtax is required by businesses with at least $100 million annual gross income.

(c) Gross receipts tax rates vary by industry in these states. Texas has only two rates: 0.375% on retail and wholesale and 0.75% on all other industries. Virginia's tax is locally levied and rates vary by business and by jurisdiction. Washington has over 30 different industry classifications and rates, while Nevada has 26.

(d) Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate.

(e) Nevada also levies a payroll tax, the Modified Business Tax, which is reflected in the individual income tax component of the Index.

(f) The rates indicated apply to a corporation's entire net income rather than just income over the threshold.

(g) In New Jersey, a temporary and retroactive surcharge is in effect from 2020 to 2023, bringing the rate to 11.5% for businesses with income over $1 million.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

TABLE 9.

State Corporate Income Tax and Business Tax Bases: Tax Credits and Gross Receipts Tax Deductions (as of July 1, 2022)

				Gross Receipts Tax Deductions	
	Job Credits	Research and Development Credits	Investment Credits	Compensation Expenses Deductible	Cost of Goods Sold Deductible
Alabama	Yes	No	Yes		
Alaska	No	No	No		
Arizona	Yes	Yes	Yes		
Arkansas	Yes	Yes	Yes		
California	Yes	Yes	No		
Colorado	Yes	Yes	Yes		
Connecticut	No	Yes	Yes		
Delaware	Yes	Yes	Yes	No	No
Florida	Yes	Yes	Yes		
Georgia	Yes	Yes	Yes		
Hawaii	No	Yes	Yes		
Idaho	Yes	Yes	Yes		
Illinois	Yes	Yes	Yes		
Indiana	Yes	Yes	Yes		
Iowa	Yes	Yes	Yes		
Kansas	Yes	Yes	Yes		
Kentucky	Yes	Yes	Yes		
Louisiana	Yes	Yes	Yes		
Maine	No	Yes	Yes		
Maryland	Yes	Yes	Yes		
Massachusetts	Yes	Yes	Yes		
Michigan	No	No	No		
Minnesota	Yes	Yes	Yes		
Mississippi	Yes	No	Yes		
Missouri	Yes	No	Yes		
Montana	Yes	Yes	No		
Nebraska	Yes	Yes	Yes		
Nevada	No	No	No	No	No
New Hampshire	Yes	Yes	Yes		
New Jersey	Yes	Yes	Yes		
New Mexico	Yes	Yes	Yes		
New York	Yes	Yes	Yes		
North Carolina	No	No	No		
North Dakota	No	Yes	Yes		
Ohio	Yes	Yes	Yes	No	No
Oklahoma	Yes	No	Yes		
Oregon	No	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes		
Rhode Island	Yes	Yes	Yes		
South Carolina	Yes	Yes	Yes		
South Dakota	No	No	No		
Tennessee	Yes	No	Yes	No	No
Texas	No	Yes	No	Partial (a)	Partial (a)
Utah	Yes	Yes	Yes		
Vermont	No	Yes	Yes		
Virginia	Yes	Yes	Yes		
Washington	No	No	No	No	No
West Virginia	Yes	Yes	Yes		
Wisconsin	Yes	Yes	Yes		
Wyoming	No	No	No		
District of Columbia	Yes	No	No		

(a) Businesses may deduct either compensation or cost of goods sold but not both.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 10.

State Corporate Income Tax and Business Tax Bases: Net Operating Losses (as of July 1, 2022)

	Carryback (Years)	Carryback Cap	Carryforward (Years)	Carryforward Cap
Alabama	0	$0	15	Unlimited
Alaska	Conforms to federal treatment			
Arizona	0	$0	20	Unlimited
Arkansas	0	$0	8	Unlimited
California	0	0	0	0
Colorado	Conforms to federal treatment			
Connecticut	0	$0	20	Unlimited
Delaware	Conforms to federal treatment			
Florida	Conforms to federal treatment			
Georgia	Conforms to federal treatment			
Hawaii	Conforms to federal treatment			
Idaho	2	$100,000	20	Unlimited
Illinois	0	$0	22	Unlimited
Indiana	0	$0	20	Unlimited
Iowa	0	$0	20	Unlimited
Kansas	Conforms to federal treatment			
Kentucky	Conforms to federal treatment			
Louisiana	0	$0	20	Unlimited
Maine	Conforms to federal treatment			
Maryland	Conforms to federal treatment			
Massachusetts	0	$0	20	Unlimited
Michigan	0	$0	10	Unlimited
Minnesota	0	$0	15	Unlimited
Mississippi	2	Unlimited	20	Unlimited
Missouri	2	Unlimited	20	Unlimited
Montana	3	$500,000	10	Unlimited
Nebraska	0	$0	20	Unlimited
Nevada	n.a.	n.a.	n.a.	n.a.
New Hampshire	0	$0	10	$10,000,000
New Jersey	0	$0	20	Unlimited
New Mexico	Conforms to federal treatment			
New York	3	Unlimited	20	Unlimited
North Carolina	0	$0	15	Unlimited
North Dakota	0	$0	20	Unlimited
Ohio	n.a.	n.a.	n.a.	n.a.
Oklahoma	Conforms to federal treatment			
Oregon	0	$0	15	Unlimited
Pennsylvania	0	$0	20	40% of Liability (a)
Rhode Island	0	$0	5	Unlimited
South Carolina	Conforms to federal treatment			
South Dakota	Conforms to federal treatment			
Tennessee	0	$0	15	Unlimited
Texas	n.a.	n.a.	n.a.	n.a.
Utah	Conforms to federal treatment			
Vermont	0	$0	10	Unlimited
Virginia	Conforms to federal treatment			
Washington	n.a.	n.a.	n.a.	n.a.
West Virginia	Conforms to federal treatment			
Wisconsin	0	$0	20	Unlimited
Wyoming	n.a.	n.a.	n.a.	n.a.
District of Columbia	Conforms to federal treatment			

(a) Pennsylvania allows unlimited carryforwards but caps claims at 40 percent of tax liability in any given year.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 11.

State Corporate Income Tax and Business Tax Bases: Treatment of Capital Investment (as of July 1, 2022)

	Section 168(k) Expensing	Conforms to Section 163(j) Limitation	GILTI Inclusion
Alabama	100%	Yes	Decouples/95% exclusion
Alaska	100%	Yes	Decouples/95% exclusion
Arizona	0%	Yes	Decouples/95% exclusion
Arkansas	0%	No	Decouples/95% exclusion
California	0%	No	Decouples/95% exclusion
Colorado	100%	Yes	Decouples/95% exclusion
Connecticut	0%	No	Decouples/95% exclusion
Delaware	100%	Yes	Mostly Excluded
Florida	0%	Yes	Decouples/95% exclusion
Georgia	0%	No	Decouples/95% exclusion
Hawaii	0%	Yes	Decouples/95% exclusion
Idaho	0%	Yes	Mostly Excluded
Illinois	100%	Yes	Decouples/95% exclusion
Indiana	0%	No	Decouples/95% exclusion
Iowa	100%	No	Decouples/95% exclusion
Kansas	100%	Yes	Decouples/95% exclusion
Kentucky	0%	Yes	Decouples/95% exclusion
Louisiana	100%	Yes	Decouples/95% exclusion
Maine	0%	Yes	Taxes 50% or more of GILTI
Maryland	0%	Yes	Taxes 50% or more of GILTI
Massachusetts	0%	Yes	Decouples/95% exclusion
Michigan	0%	Yes	Decouples/95% exclusion
Minnesota	20%	Yes	Decouples/95% exclusion
Mississippi	0%	No	Decouples/95% exclusion
Missouri	100%	No	Decouples/95% exclusion
Montana	100%	Yes	Mostly Excluded
Nebraska	100%	Yes	Mostly Excluded
Nevada	0%	No	Decouples/95% exclusion
New Hampshire	0%	Yes	Decouples/95% exclusion
New Jersey	0%	Yes	Taxes 50% or more of GILTI
New Mexico	100%	Yes	Decouples/95% exclusion
New York	0%	Yes	Decouples/95% exclusion
North Carolina	15%	Yes	Decouples/95% exclusion
North Dakota	100%	Yes	Mostly Excluded
Ohio	0%	No	Decouples/95% exclusion
Oklahoma	100%	Yes	Decouples/95% exclusion
Oregon	100%	Yes	Mostly Excluded
Pennsylvania	0%	Yes	Decouples/95% exclusion
Rhode Island	0%	Yes	Taxes 50% or more of GILTI
South Carolina	0%	No	Decouples/95% exclusion
South Dakota	100%	No	Decouples/95% exclusion
Tennessee	0%	No	Decouples/95% exclusion
Texas	0%	No	Decouples/95% exclusion
Utah	100%	Yes	Taxes 50% or more of GILTI
Vermont	0%	Yes	Mostly Excluded
Virginia	0%	Yes	Decouples/95% exclusion
Washington	0%	No	Decouples/95% exclusion
West Virginia	100%	Yes	Mostly Excluded
Wisconsin	0%	No	Decouples/95% exclusion
Wyoming	100%	No	Decouples/95% exclusion
District of Columbia	0%	Yes	Taxes 50% or more of GILTI

Note: “Mostly Excluded” means GILTI may apply or that the deduction is less than 95%.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 12.

State Corporate Income Tax and Business Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Allows Federal ACRS or MACRS Depreciation	Allows Federal Depletion	Throwback Rule	Foreign Tax Deductibility	Corporate AMT	Brackets Indexed for Inflation
Alabama	Yes	Yes	Yes	No	Yes	No	Flat CIT
Alaska	Yes	Yes	Partial	Yes	No	Yes	No
Arizona	Yes	Yes	Yes	No	No	No	Flat CIT
Arkansas	No	Yes	Yes	Yes	Yes	No	No
California	Yes	No	Partial	Yes	No	Yes	Flat CIT
Colorado	Yes	Yes	Yes	Yes	No	No	Flat CIT
Connecticut	Yes	Yes	Yes	No	Yes	No	No
Delaware	Yes	Yes	Partial	No	No	No	Flat CIT
Florida	Yes	Yes	Yes	No	Yes	No	Flat CIT
Georgia	Yes	Yes	Yes	No	No	No	Flat CIT
Hawaii	Yes	Yes	Yes	Yes	Yes	No	No
Idaho	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Illinois	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Indiana	Yes	Yes	Yes	No	Yes	No	Flat CIT
Iowa	Yes	Yes	Partial	No	Yes	No	No
Kansas	Yes	Yes	Yes	Yes	No	No	No
Kentucky	Yes	Yes	Yes	No	No	Yes	Flat CIT
Louisiana	Yes	Yes	Partial	Yes	Yes	No	No
Maine	Yes	Yes	Yes	Yes	Yes	No	No
Maryland	Yes	Yes	Partial	No	Yes	No	Flat CIT
Massachusetts	Yes	Yes	Yes	Yes	No	No	Flat CIT
Michigan	Yes	Yes	Yes	No	No	No	Flat CIT
Minnesota	Yes	Yes	Partial	No	No	Yes	Flat CIT
Mississippi	No	Yes	Partial	Yes	No	No	No
Missouri	Yes	Yes	Yes	No	Yes	No	Flat CIT
Montana	Yes	Yes	Yes	Yes	No	No	Flat CIT
Nebraska	Yes	Yes	Yes	No	Yes	No	No
Nevada	Yes	Yes	Yes	No	Yes	No	GRT
New Hampshire	Yes	Yes	Partial	Yes	No	Yes	Flat CIT
New Jersey	Yes	Yes	Yes	No	No	No	No
New Mexico	Yes	Yes	Yes	Yes	Yes	No	No
New York	Yes	Yes	Yes	No	Yes	No	Flat CIT
North Carolina	Yes	Yes	Partial	No	No	No	Flat CIT
North Dakota	Yes	Yes	Yes	Yes	No	No	No
Ohio	Yes	Yes	Yes	No	Yes	No	GRT
Oklahoma	Yes	Yes	Partial	Yes	No	No	Flat CIT
Oregon	Yes	Yes	Partial	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes	No	No	No	Flat CIT
Rhode Island	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
South Carolina	Yes	Yes	Yes	No	No	No	Flat CIT
South Dakota	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	Yes	Yes	Partial	No	Yes	No	Flat CIT
Texas	Partial	Yes	Yes	No	Yes	No	GRT
Utah	Yes	Yes	Yes	Yes	No	No	Flat CIT
Vermont	Yes	Yes	Yes	Yes	Yes	No	No
Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Washington	Yes	Yes	Yes	No	Yes	No	GRT
West Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Wisconsin	Yes	Yes	Yes	Yes	No	No	Flat CIT
Wyoming	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	Yes	Yes	Yes	Yes	Partial	No	Flat CIT

Source: Tax Foundation; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 13.

State Individual Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets (a)	Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)
				Single	Per Filer (b)	Per Dependent	
Alabama	2.0%	>	$0	$2,500	$1,500	$1,000	0.50%
	4.0%	>	$500				
	5.0%	>	$3,000				
Alaska	No Income Tax						None
Arizona	2.55%	>	$0	12950 (j)	n.a.	n.a.	None
	2.98%	>	$27,272				
Arkansas (e, f)	2.0%	>	$0	$2,200	$29 (g)	$29 (g)	None
	4.0%	>	$4,300				
	4.9%	>	$8,500				
California (e)	1.0%	>	$0	$4,803	$129 (g)	$400 (g)	None
	2.0%	>	$9,325				
	4.0%	>	$22,107				
	6.0%	>	$34,892				
	8.0%	>	$48,435				
	9.3%	>	$61,214				
	10.3%	>	$312,686				
	11.3%	>	$375,221				
	12.3%	>	$625,369				
	13.3%	>	$1,000,000				
Colorado	4.5%	>	$0	$12,950	n.a.	n.a.	None
Connecticut (f)	3.0%	>	$0	n.a.	$15,000 (d)	$0	None
	5.0%	>	$10,000				
	5.50%	>	$50,000				
	6.0%	>	$100,000				
	6.50%	>	$200,000				
	6.90%	>	$250,000				
	6.99%	>	$500,000				
Delaware	2.20%	>	$2,000	$3,250	$110 (g)	$110 (g)	0.625%
	3.90%	>	$5,000				
	4.80%	>	$10,000				
	5.20%	>	$20,000				
	5.55%	>	$25,000				
	6.60%	>	$60,000				
Florida	No Income Tax						None
Georgia	1.0%	>	$0	$4,600	$2,700	$3,000	None
	2.0%	>	$750				
	3.0%	>	$2,250				
	4.0%	>	$3,750				
	5.0%	>	$5,250				
	5.75%	>	$7,000				
Hawaii	1.40%	>	$0	$2,200	$1,144 (d)	$1,144	None
	3.20%	>	$2,400				
	5.50%	>	$4,800				
	6.40%	>	$9,600				
	6.80%	>	$14,400				
	7.20%	>	$19,200				
	7.60%	>	$24,000				
	7.90%	>	$36,000				
	8.25%	>	$48,000				
	9.00%	>	$150,000				
	10.00%	>	$175,000				
	11.00%	>	$200,000				
Idaho (e)	1.0%	>	$0	$12,950 (j)	n.a.	n.a.	None
	3.0%	>	$1,588.00				
	4.5%	>	$4,763.00				
	6.0%	>	$7,939.00				
Illinois (h)	4.95%	>	$0	$0	$2,375	$2,375	None
Indiana	3.23%	>	$0	$0	$1,000	$1,000	1.76%

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets (a)	Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)
				Single	Per Filer (b)	Per Dependent	
Iowa (e)	0.33%	>	$0	$2,210	$40 (g)	$40 (g)	0.4265%
	0.67%	>	$1,743				
	2.25%	>	$3,486				
	4.14%	>	$6,972				
	5.63%	>	$15,687				
	5.96%	>	$26,154				
	6.25%	>	$34,860				
	7.44%	>	$52,290				
	8.53%	>	$78,435				
Kansas	3.10%	>	$0	$3,500	$2,250	$2,250	None
	5.25%	>	$15,000				
	5.70%	>	$30,000				
Kentucky	5.0%	>	$0	$2,770	n.a.	n.a.	2.075%
Louisiana	1.9%	>	$0	n.a.	$4,500 (i)	$1,000	None
	3.5%	>	$12,500				
	4.3%	>	$50,000				
Maine (e)	5.80%	>	$0	$12,950	$4,450	$300 (g)	None
	6.75%	>	$23,000				
	7.15%	>	$54,450				
Maryland	2.0%	>	$0	$2,350	$3,200 (d)	$3,200	3.005%
	3.0%	>	$1,000				
	4.0%	>	$2,000				
	4.75%	>	$3,000				
	5.0%	>	$100,000				
	5.25%	>	$125,000				
	5.50%	>	$150,000				
	5.75%	>	$250,000				
Massachusetts	5.0%	>	$0	n.a.	$4,400	$1,000	None
Michigan	4.25%	>	$0	n.a.	$5,000	$5,000	1.70%
Minnesota (e)	5.35%	>	$0	$12,900 (j)	n.a.	$4,350	None
	6.80%	>	$28,080				
	7.85%	>	$92,230				
	9.85%	>	$171,220				
Mississippi	4.0%	>	$5,000	$2,300	$6,000	$1,500	None
	5.0%	>	$10,000				
Missouri	1.5%	>	$108	$12,950 (j)	n.a.	n.a.	0.50%
	2.0%	>	$1,088				
	2.5%	>	$2,176				
	3.0%	>	$3,264				
	3.5%	>	$4,352				
	4.0%	>	$5,440				
	4.5%	>	$6,528				
	5.0%	>	$7,616				
	5.3%	>	$8,704				
Montana (e)	1.0%	>	$0	$4,830	$2,580	$2,580	None
	2.0%	>	$3,300				
	3.0%	>	$5,800				
	4.0%	>	$8,900				
	5.0%	>	$12,000				
	6.0%	>	$15,400				
	6.75%	>	$19,800				
Nebraska (e)(f)	2.46%	>	$0	$7,350	$142 (d, g)	$142 (d, g)	None
	3.51%	>	$3,340				
	5.01%	>	$19,990				
	6.84%	>	$32,210				
Nevada (k)	No Income Tax						None
New Hampshire (l)	5.0%	>	$0	n.a.	$2,400	$0	None
New Jersey	1.400%	>	$0	n.a.	$1,000	$1,500	0.50%
	1.750%	>	$20,000				
	3.500%	>	$35,000				
	5.525%	>	$40,000				
	6.370%	>	$75,000				
	8.970%	>	$500,000				
	10.750%	>	$1,000,000				

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

			Standard Deduction	Personal Exemption		
State	Rates	Brackets (a)	Single	Per Filer (b)	Per Dependent	Average Local Income Tax Rates (c)
New Mexico	1.7% >	$0	$12,950 (j)	n.a.	$4,000	None
	3.2% >	$5,500				
	4.7% >	$11,000				
	4.9% >	$16,000				
	5.9%	$210,000				
New York (e, f)	4.00% >	$0	$8,000	$0	$1,000	1.938%
	4.50% >	$8,500				
	5.25% >	$11,700				
	5.85% >	$13,900				
	6.25% >	$80,650				
	6.85% >	$215,400				
	9.65% >	$1,077,550				
	10.30% >	$5,000,000				
	10.90%	25,000,000				
	10.90% >	$25,000,000				
North Carolina	4.99% >	$0	$12,750	n.a.	n.a.	None
North Dakota (e)	1.10% >	$0	$12,950 (j)	n.a.	n.a.	None
	2.04% >	$40,525				
	2.27% >	$98,100				
	2.64% >	$204,675				
	2.90% >	$445,000				
Ohio (e)	2.756% >	$25,000	n.a.	$2,400	$2,400	2.50%
	3.226% >	$44,250				
	3.688% >	$88,450				
	3.990% >	$110,650				
Oklahoma	0.25% >	$0	$6,350	$1,000	$1,000	None
	0.75% >	$1,000				
	1.75% >	$2,500				
	2.75% >	$3,750				
	3.75% >	$4,900				
	4.75% >	$7,200				
Oregon (e, k)	4.75% >	$0	$2,420	$213 (g)	$213 (g)	2.387%
	6.75% >	$3,650				
	8.75% >	$9,200				
	9.90% >	$125,000				
Pennsylvania	3.07% >	$0	n.a.	n.a.	n.a.	2.895%
Rhode Island (e)	3.75% >	$0	$9,300 (d)	n.a.	$4,350 (d)	None
	4.75% >	$68,200				
	5.99% >	$155,050				
South Carolina (e)	0.0% >	$0	$12,950 (j)	n.a.	$4,300	None
	3.0% >	$3,200				
	6.5% >	$16,040				
South Dakota	No Income Tax					None
Tennessee	No Income Tax					None
Texas	No Income Tax					None
Utah	4.85% >	$0	(m)	(m)	(m)	None
Vermont (n)	3.35% >	$0	$6,350	$4,350	$4,350	None
	6.60% >	$40,950				
	7.60% >	$99,200				
	8.75% >	$206,950				
Virginia	2.0% >	$0	$4,500	$930	$930	None
	3.0% >	$3,000				
	5.0% >	$5,000				
	5.75% >	$17,000				
Washington (o)	7.0% >	$250,000				None
West Virginia	3.0% >	$0	n.a.	$2,000	$2,000	None
	4.0% >	$10,000				
	4.50% >	$25,000				
	6.0% >	$40,000				
	6.50% >	$60,000				
Wisconsin (e)	3.54% >	$0	$11,790 (d)	$700	$700	None
	4.65% >	$12,760				
	5.30% >	$25,520				
	7.65% >	$280,950				

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

				Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)
State	Rates		Brackets (a)	Single	Per Filer (b)	Per Dependent	
Wyoming	No Income Tax						None
District of Columbia	4.0%	>	$0	$12,950 (j)	n.a.	n.a.	None
	6.0%	>	$10,000				
	6.50%	>	$40,000				
	8.50%	>	$60,000				
	9.25%	>	$250,000				
	9.75%	>	$500,000				
	10.75%	>	$1,000,000				

(a) Brackets are for single taxpayers. Some states double bracket widths for joint filers (AL, AZ, CT, HI, ID, KS, LA, ME, NE, OR). New York doubles all except the top two brackets. Some states increase but do not double brackets for joint filers (CA, GA, MN, NM, NC, ND, OK, RI, VT, WI). Maryland decreases some and increases others. New Jersey adds a 2.45% rate and doubles some bracket widths. Consult the Tax Foundation website for tables for joint filers.
(b) Married joint filers generally receive double the single exemption.
(c) The average local income tax rate is calculated by taking the mean of the income tax rate in the most populous city and the capital city.
(d) Subject to phaseout for higher-income taxpayers.
(e) Bracket levels are adjusted for inflation each year.
(f) Arkansas, Connecticut, Nebraska, and New York have an income "recapture" provision whereby the benefit of lower tax brackets is removed for the top bracket. See the individual income tax section for details.
(g) Tax credit.
(h) Illinois imposes an additional 1.5% tax on pass-through businesses, bringing the combined rate to 6.45%.
(i) The standard deduction and personal exemptions are combined: $4,500 for single and married filing separately; $9,000 married filing jointly.
(j) These states adopt the same standard deductions or (now zeroed-out) personal exemptions as the federal government. In some cases, the link is implicit in the fact that the state tax calculations begin with federal taxable income.
(k) Nevada imposes a payroll tax of 1.45%, which is included in the *Index* as a tax on wage income only. Oregon imposes a payroll tax of 0.1% in addition to its income tax; this is also reflected in *Index* calculations.
(l) Tax applies to interest and dividend income only.
(m) Utah's standard deduction and personal exemption are combined into a single credit equal to 6% of the taxpayer's federal standard deduction (or itemized deductions) plus three-fourths of the taxpayer's federal exemptions. This credit is phased out for higher-income taxpayers.
(n) Bracket levels are adjusted for inflation each year; 2022 inflation adjustments were not available as of publication, so inflation-adjusted amounts for tax year 2021 are shown.
(o) Tax applies to capital gains income only.

Source: Tax Foundation; state tax forms and instructions; state statutes.

TABLE 14.

State Individual Income Tax Bases: Marriage Penalty, Capital Income, and Indexation (as of July 1, 2022)

			Capital Income Taxed			Indexed for Inflation		
	Marriage Penalty	Convenience Rule	Interest	Dividends	Capital Gains	Tax Brackets	Standard Deduction	Personal Exemption
Alabama	No	No	Yes	Yes	Yes	No	No	No
Alaska	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Arkansas	Yes	No	Yes	Yes	Yes	Yes	No	Yes
California	Yes	No	Yes	Yes	Yes	Partial	Yes	Yes
Colorado	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Connecticut	No	Partial	Yes	Yes	Yes	No	Yes	No
Delaware	Yes	Yes	Yes	Yes	Yes	No	No	No
Florida	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia	Yes	No	Yes	Yes	Yes	No	No	No
Hawaii	No	No	Yes	Yes	Yes	No	No	No
Idaho	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Illinois	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Indiana	No	No	Yes	Yes	Yes	Yes	Yes	No
Iowa	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Kansas	No	No	Yes	Yes	Yes	No	No	No
Kentucky	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Louisiana	No	No	Yes	Yes	Yes	No	No	No
Maine	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Maryland	Yes	No	Yes	Yes	Yes	No	Yes	No
Massachusetts	No	No	Yes	Yes	Yes	Yes	Yes	No
Michigan	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Minnesota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Mississippi	Yes	No	Yes	Yes	Yes	No	No	No
Missouri	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Montana	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Nebraska	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nevada	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	No	No	Yes	Yes	No	Yes	Yes	No
New Jersey	Yes	No	Yes	Yes	Yes	No	Yes	No
New Mexico	Yes	No	Yes	Yes	Yes	No	Yes	Yes
New York	Yes	Yes	Yes	Yes	Yes	No	No	No
North Carolina	No	No	Yes	Yes	Yes	Yes	No	Yes
North Dakota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Ohio	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Oklahoma	Yes	No	Yes	Yes	Yes	No	No	No
Oregon	No	No	Yes	Yes	Yes	Partial	Yes	Yes
Pennsylvania	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rhode Island	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Carolina	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Dakota	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Texas	n.a.	No	n.a.	n.a.	n.a.	Yes	Yes	Yes
Utah	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Vermont	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Virginia	Yes	No	Yes	Yes	Yes	No	No	No
Washington	Yes	No	n.a.	n.a.	Yes	No	n.a.	n.a.
West Virginia	Yes	No	Yes	Yes	Yes	No	Yes	No
Wisconsin	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Wyoming	n.a.	No	n.a.	n.a.	n.a.	Yes	Yes	Yes
District of Columbia	Yes	No	Yes	Yes	Yes	No	Yes	Yes

Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 15.

State Individual Income Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Credits for Taxes Paid to Other States	AMT Levied	Recognition of LLC Status	Recognition of S-Corp Status	Section 179 Expensing Limit
Alabama	No	Yes	No	Yes	Yes	$1,000,000
Alaska	Yes	Yes	No	Yes	Yes	$1,000,000
Arizona	Yes	Yes	No	Yes	Yes	$1,000,000
Arkansas	No	Yes	No	Yes	Partial	$25,000
California	Yes	Yes	Yes	Yes	Yes	$25,000
Colorado	Yes	Yes	Yes	Yes	Yes	$1,000,000
Connecticut	Yes	Yes	Yes	Yes	Yes	$200,000
Delaware	Yes	Yes	No	No	No	$1,000,000
Florida	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
Georgia	Yes	Yes	No	Yes	Yes	$1,000,000
Hawaii	Yes	Yes	No	Yes	Yes	$25,000
Idaho	Yes	Yes	No	Yes	Yes	$1,000,000
Illinois	Yes	Yes	No	Yes	Yes	$1,000,000
Indiana	Yes	Yes	No	Yes	Yes	$25,000
Iowa	Yes	Yes	Yes	Yes	Yes	$1,000,000
Kansas	Yes	Yes	No	Yes	Yes	$1,000,000
Kentucky	Yes	Yes	No	Yes	Yes	$100,000
Louisiana	Yes	Yes	No	Yes	No	$1,000,000
Maine	Yes	Yes	No	Yes	Yes	$1,000,000
Maryland	Yes	Yes	No	Yes	Yes	$25,000
Massachusetts	Yes	Yes	No	Yes	Yes	$1,000,000
Michigan	Yes	Yes	No	Yes	Yes	$1,000,000
Minnesota	Yes	Yes	Yes	Yes	Yes	$1,000,000
Mississippi	No	Yes	No	Yes	Yes	$1,000,000
Missouri	Yes	Yes	No	Yes	Yes	$1,000,000
Montana	Yes	Yes	No	Yes	Yes	$1,000,000
Nebraska	Yes	Yes	No	Yes	Yes	$1,000,000
Nevada	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
New Hampshire	Yes	No	No	No	No	$500,000
New Jersey	No	Yes	No	Yes	Partial	$25,000
New Mexico	Yes	Yes	No	Yes	Yes	$1,000,000
New York	Yes	Yes	No	Yes	Partial	$1,000,000
North Carolina	Yes	Yes	No	Yes	Yes	$25,000
North Dakota	Yes	Yes	No	Yes	Yes	$1,000,000
Ohio	Yes	Yes	No	No	No	$1,000,000
Oklahoma	Yes	Yes	No	Yes	Yes	$1,000,000
Oregon	Yes	Yes	No	Yes	Yes	$1,000,000
Pennsylvania	No	Yes	No	Yes	Yes	$25,000
Rhode Island	Yes	Yes	No	Yes	Yes	$1,000,000
South Carolina	Yes	Yes	No	Yes	Yes	$1,000,000
South Dakota	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
Tennessee	Yes	Yes	No	Yes	No	$1,000,000
Texas	n.a.	n.a.	n.a.	No	No	$1,000,000
Utah	Yes	Yes	No	Yes	Yes	$1,000,000
Vermont	Yes	Yes	No	Yes	Yes	$1,000,000
Virginia	Yes	Yes	No	Yes	Yes	$1,000,000
Washington	n.a.	n.a.	n.a.	No	No	$1,000,000
West Virginia	Yes	Yes	No	Yes	Yes	$1,000,000
Wisconsin	Yes	Yes	No	Yes	Yes	$1,000,000
Wyoming	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
District of Columbia	Yes	Yes	No	Yes	No	$25,000

Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 16.
State Sales and Excise Tax Rates (as of July 1, 2022)

	Sales Taxes		Excise Taxes				
	State Sales Tax Rate	Average Local Rate	Gasoline (cents per gallon) (e)	Diesel (cents per gallon) (e)	Cigarettes (dollars per pack of 20)	Beer (dollars per gallon)	Spirits (dollars per gallon) (g)
Alabama	4.00%	5.24%	31.31	32.25	$0.68	$1.05 (f)	$19.11 (h)
Alaska	n.a	1.76%	15.13	14.98	$2.00	$1.07	$12.80
Arizona	5.60%	2.77%	19.00	27.00	$2.00	$0.16	$3.00
Arkansas	6.50%	2.97%	24.80	28.80	$1.15	$0.34	$7.64
California (a)	7.25%	1.57%	70.95	102.01	$2.87	$0.20	$3.30
Colorado	2.90%	4.87%	22.00	20.50	$1.94	$0.08	$2.28
Connecticut	6.35%	n.a.	35.75	42.90	$4.35	$0.23	$5.94
Delaware	n.a	n.a.	23.00	22.00	$2.10	$0.26	$4.50
Florida	6.00%	1.01%	43.55	36.37	$1.34	$0.48	$6.50
Georgia	4.00%	3.37%	37.55	41.39	$0.37	$1.01 (f)	$3.79
Hawaii (b)	4.00%	0.44%	51.69	52.41	$3.20	$0.93	$5.98
Idaho	6.00%	0.02%	33.00	33.00	$0.57	$0.15	$10.91 (h)
Illinois	6.25%	2.48%	59.60	67.02	$2.98	$0.23	$8.55
Indiana	7.00%	n.a.	50.79	55.00	$1.00	$0.12	$2.68
Iowa	6.00%	0.94%	30.00	32.50	$1.36	$0.19	$13.03 (h)
Kansas	6.50%	2.21%	24.03	26.03	$1.29	$0.18	$2.50
Kentucky	6.00%	n.a.	26.00	23.00	$1.10	$0.89	$8.81
Louisiana	4.45%	5.10%	20.01	20.01	$1.08	$0.40	$3.03
Maine	5.50%	n.a.	30.01	31.21	$2.00	$0.35	$11.96 (h)
Maryland	6.00%	n.a.	42.70	43.45	$3.75	$0.55	$5.03
Massachusetts	6.25%	n.a.	26.54	26.54	$3.51	$0.11	$4.05
Michigan	6.00%	n.a.	45.17	47.16	$2.00	$0.20	$11.95 (h)
Minnesota	6.88%	0.61%	30.60	30.60	$3.70	$0.46	$8.77
Mississippi	7.00%	0.07%	18.79	18.40	$0.68	$0.43	$8.11
Missouri	4.23%	4.07%	22.42	22.42	$0.17	$0.06	$2.00
Montana (c)	n.a	n.a.	33.25	30.30	$1.70	$0.14	$9.83
Nebraska	5.50%	1.44%	25.70	25.10	$0.64	$0.31	$3.75
Nevada	6.85%	1.38%	50.48	28.56	$1.80	$0.16	$3.60
New Hampshire	n.a	n.a.	23.83	23.83	$1.78	$0.30	$0.00 (h)
New Jersey (d)	6.63%	-0.03%	50.70	57.70	$2.70	$0.12	$5.50
New Mexico (b)	5.00%	2.72%	18.88	22.88	$2.00	$0.41	$6.06
New York	4.00%	4.52%	48.22	46.98	$4.35	$0.14	$6.44
North Carolina	4.75%	2.23%	38.75	38.75	$0.45	$0.62	$15.33 (h)
North Dakota (b)	5.00%	1.96%	23.00	23.00	$0.44	$0.45	$4.68
Ohio	5.75%	1.49%	38.51	47.01	$1.60	$0.18	$9.83 (h)
Oklahoma	4.50%	4.49%	20.00	20.00	$2.03	$0.40	$5.56
Oregon	n.a	n.a.	38.83	38.06	$1.33	$0.08	$21.95 (h)
Pennsylvania	6.00%	0.34%	58.70	75.20	$2.60	$0.08	$7.41 (h)
Rhode Island	7.00%	n.a.	35.00	35.00	$4.25	$0.12	$5.40
South Carolina	6.00%	1.44%	28.75	29.10	$0.57	$0.77	$5.42
South Dakota (b)	4.50%	1.90%	30.00	30.00	$1.53	$0.27	$4.78
Tennessee	7.00%	2.55%	27.40	28.40	$0.62	$1.29	$4.46
Texas	6.25%	1.95%	20.00	20.00	$1.41	$0.20	$2.40
Utah (a)	6.10%	1.09%	31.91	31.91	$1.70	$0.41	$15.92 (h)
Vermont	6.00%	0.24%	34.45	34.31	$3.08	$0.27	$7.68 (h)
Virginia (a)	5.30%	0.45%	36.20	37.20	$0.60	$0.26	$19.89 (h)
Washington	6.50%	2.79%	49.40	49.40	$3.03	$0.26	$37.81
West Virginia	6.00%	0.55%	35.70	35.70	$1.20	$0.18	$7.62 (h)
Wisconsin	5.00%	0.43%	32.90	32.90	$2.52	$0.06	$3.25
Wyoming	4.00%	1.36%	24.00	24.00	$0.60	$0.02	$0.00 (h)
District of Columbia	6.00%	n.a.	33.80	33.80	$5.01	$0.72	$6.20

(a) Some state sales taxes include a local component collected uniformly across the state: California (1.25%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax rates.
(b) Sales tax rates in Hawaii, New Mexico, North Dakota, and South Dakota are not strictly comparable to other states due to broad bases that include many services.
(c) Special taxes in Montana's resort areas are not included in our analysis.
(d) Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.3125%. Their average local score is represented as a negative.
(e) Calculated rate including excise taxes, additional fees levied per gallon (such as storage tank and environmental fees), local excise taxes, and sales or gross receipts taxes.
(f) Includes a statewide local tax of 52 cents in Alabama and 53 cents in Georgia.
(g) May include taxes that are levied based on container size.
(h) These states outlaw private liquor sales and utilize state-run stores. These are called "control states," while "license states" are those that permit private wholesale and retail sales. All license states have an excise tax rate in law, expressed in dollars per gallon. Control states levy no statutory tax but usually raise comparable revenue by charging higher prices. The Distilled Spirits Council of the U.S. has computed approximate excise tax rates for control states by comparing prices of typical products sold in their state-run stores to the pre-tax prices of liquor in states where liquor is privately sold. In New Hampshire, average liquor prices charged in state-run stores are lower than pre-tax prices in license states. Washington privatized its liquor sales but enacted tax increases as a part of the package.

Source: Tax Foundation; Bloomberg Tax; American Petroleum Institute; Distilled Spirits Council of the United States; Federation of Tax Administrators.

TABLE 17.

State Sales Tax Bases: Exemptions for Business-to-Business Transactions (as of July 1, 2022)

	Specific Exemption	Farm Equipment	Office Equipment	Manufacturing Machinery	Manufacturing Raw Materials	Business Fuel & Utilities	Business Lease & Rentals	Information Services
Alabama	No	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt
Arkansas	No	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
California	No	Partial	Taxable	Partial	Exempt	Taxable	Taxable	Exempt
Colorado	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Connecticut	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Georgia	No	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
Hawaii	No	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
Idaho	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Illinois	No	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt
Indiana	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Iowa	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kansas	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kentucky	No	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt
Louisiana	No	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Maine	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Maryland	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Massachusetts	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Michigan	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Minnesota	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Mississippi	No	Partial	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
Missouri	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	No	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt
Nevada	No	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
New Mexico	No	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
New York	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
North Carolina	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
North Dakota	No	Partial	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
Ohio	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Oklahoma	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Rhode Island	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
South Carolina	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
South Dakota	No	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable
Tennessee	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt
Texas	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Utah	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Vermont	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Virginia	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Washington	No	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
West Virginia	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Wisconsin	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Wyoming	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
District of Columbia	No	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable

Note: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 17, although Alaska has a local option sales tax.
Source: Tax Foundation; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 18.

State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2022)

	Goods					Services		
	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline	Legal	Financial	Accounting
Alabama	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Arkansas	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
California	Exempt	Taxable	Exempt	Taxable	Alternate Rate	Exempt	Exempt	Exempt
Colorado	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Connecticut	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Georgia	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Hawaii	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable
Idaho	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Illinois	Alternate Rate	Taxable	Alternate Rate	Alternate Rate	Taxable	Exempt	Exempt	Exempt
Indiana	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Iowa	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt
Kansas	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Kentucky	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Louisiana	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Maine	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Michigan	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Minnesota	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Mississippi	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Missouri	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Nevada	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
New Mexico	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable
New York	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
North Carolina	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
North Dakota	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Ohio	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Oklahoma	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
South Carolina	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
South Dakota	Taxable	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable
Tennessee	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Texas	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Utah	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	Alternate Rate	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
West Virginia	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Wisconsin	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Wyoming	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
District of Columbia	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 18, CONTINUED.

State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2022)

	Services								
	Medical	Landscaping	Repair	Real Estate Services	Parking	Dry Cleaning	Fitness	Barber	Veterinary
Alabama	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Arkansas	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
California	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Colorado	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Connecticut	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Exempt	Taxable	Exempt	Partial	Exempt	Taxable	Exempt	Exempt
Georgia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Hawaii	Taxable	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable
Idaho	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Illinois	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Indiana	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Iowa	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Exempt
Kansas	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Kentucky	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	Taxable
Louisiana	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Maine	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Maryland	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Michigan	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Minnesota	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Mississippi	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Missouri	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Nevada	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Taxable	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt
New Mexico	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
New York	Exempt	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
North Carolina	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
North Dakota	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Ohio	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Oklahoma	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
South Carolina	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
South Dakota	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
Tennessee	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Texas	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Utah	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable
West Virginia	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Wisconsin	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Wyoming	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
District of Columbia	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.
Source: Tax Foundation; state statutes.

TABLE 19.
Sales Tax Structure (as of July 1, 2022)

	Uniform Base Definitions	Unified Tax Administration	Safe Harbor for Remote Sellers
Alabama	Yes	No	Gross Sales Threshold
Alaska	No	No	n.a.
Arizona	No	Yes	Gross Sales Threshold
Arkansas	Yes	Yes	Sales or Transactions Threshold
California	Yes	Yes	Gross Sales Threshold
Colorado	No	No	Gross Sales Threshold
Connecticut	Yes	Yes	Gross Sales Threshold
Delaware	n.a.	n.a.	n.a.
Florida	Yes	Yes	n.a.
Georgia	Yes	Yes	Sales or Transactions Threshold
Hawaii	Yes	Yes	Sales or Transactions Threshold
Idaho	No	Yes	Gross Sales Threshold
Illinois	Yes	Yes	Sales or Transactions Threshold
Indiana	Yes	Yes	Sales or Transactions Threshold
Iowa	Yes	Yes	Gross Sales Threshold
Kansas	Yes	Yes	Gross Sales Threshold
Kentucky	Yes	Yes	Sales or Transactions Threshold
Louisiana	No	No	Sales or Transactions Threshold
Maine	Yes	Yes	Gross Sales Threshold
Maryland	Yes	Yes	Sales or Transactions Threshold
Massachusetts	Yes	Yes	Gross Sales Threshold
Michigan	Yes	Yes	Sales or Transactions Threshold
Minnesota	Yes	Yes	Sales or Transactions Threshold
Mississippi	Yes	Yes	Gross Sales Threshold
Missouri	Yes	Yes	n.a.
Montana	n.a.	n.a.	n.a.
Nebraska	Yes	Yes	Sales or Transactions Threshold
Nevada	Yes	Yes	Sales or Transactions Threshold
New Hampshire	n.a.	n.a.	n.a.
New Jersey	Yes	Yes	Sales or Transactions Threshold
New Mexico	Yes	Yes	Gross Sales Threshold
New York	Yes	Yes	Gross Sales Threshold
North Carolina	Yes	Yes	Sales or Transactions Threshold
North Dakota	Yes	Yes	Gross Sales Threshold
Ohio	Yes	Yes	Sales or Transactions Threshold
Oklahoma	Yes	Yes	Gross Sales Threshold
Oregon	Yes	n.a.	n.a.
Pennsylvania	Yes	Yes	Gross Sales Threshold
Rhode Island	Yes	Yes	Sales or Transactions Threshold
South Carolina	Yes	Yes	Gross Sales Threshold
South Dakota	Yes	Yes	Sales or Transactions Threshold
Tennessee	Yes	Yes	Gross Sales Threshold
Texas	Yes	Yes	Gross Sales Threshold
Utah	Yes	Yes	Sales or Transactions Threshold
Vermont	Yes	Yes	Sales or Transactions Threshold
Virginia	Yes	Yes	Sales or Transactions Threshold
Washington	Yes	Yes	Gross Sales Threshold
West Virginia	Yes	Yes	Sales or Transactions Threshold
Wisconsin	Yes	Yes	Gross Sales Threshold
Wyoming	Yes	Yes	Sales or Transactions Threshold
District of Columbia	Yes	Yes	Sales or Transactions Threshold

Note: States that do not require remote sales tax collection are listed as "not applicable" (n.a.) within Table 19.
Source: Tax Foundation; state statutes.

TABLE 20.

State Property Tax Rates and Capital Stock Tax Rates (as of July 1, 2022)

	Property Tax Collections Per Capita	Property Tax as a Percentage of Personal Income	Capital Stock Tax Rate	Capital Stock Max Payment	Payment Options for CST and CIT
Alabama	$620	1.37%	0.175%	$15,000	Pay both
Alaska	$2,222	3.63%	None	n.a.	n.a.
Arizona	$1,150	2.31%	None	n.a.	n.a.
Arkansas	$788	1.69%	0.3%	Unlimited	Pay both
California	$1,840	2.77%	None	n.a.	n.a.
Colorado	$1,816	2.99%	None	n.a.	n.a.
Connecticut	$3,215	4.20%	0.21%	$1,000,000	Pay highest
Delaware	$967	1.86%	0.04%	$200,000	Pay both
Florida	$1,454	2.69%	None	n.a.	n.a.
Georgia	$1,290	2.57%	(a)	$5,000	Pay both
Hawaii	$1,455	2.72%	None	n.a.	n.a.
Idaho	$1,101	2.28%	None	n.a.	n.a.
Illinois	$2,338	3.65%	0.1%	$2,000,000	Pay both
Indiana	$1,139	2.19%	None	n.a.	n.a.
Iowa	$1,775	3.39%	None	n.a.	n.a.
Kansas	$1,661	3.06%	None	n.a.	n.a.
Kentucky	$873	1.91%	None	n.a.	n.a.
Louisiana	$925	1.80%	0.275%	Unlimited	Pay both
Maine	$2,772	5.21%	None	n.a.	n.a.
Maryland	$1,689	2.66%	None	n.a.	n.a.
Massachusetts	$2,590	3.37%	0.26%	Unlimited	Pay highest
Michigan	$1,524	2.99%	None	n.a.	n.a.
Minnesota	$1,727	2.85%	None	n.a.	n.a.
Mississippi	$1,105	2.73%	0.15%	Unlimited	Pay both
Missouri	$1,118	2.14%	None	n.a.	n.a.
Montana	$1,717	3.34%	None	n.a.	n.a.
Nebraska	$2,013	3.64%	(a)	$11,995	Pay both
Nevada	$1,041	2.08%	None	n.a.	n.a.
New Hampshire	$3,246	4.79%	None	n.a.	n.a.
New Jersey	$3,513	4.80%	None	n.a.	n.a.
New Mexico	$884	1.92%	None	n.a.	n.a.
New York	$3,180	4.36%	0.1875%	$5,000,000	Pay highest
North Carolina	$1,047	2.08%	0.15%	Unlimited	Pay both
North Dakota	$1,586	2.53%	None	n.a.	n.a.
Ohio	$1,397	2.72%	None	n.a.	n.a.
Oklahoma	$826	1.75%	0.125%	$20,000	Pay both
Oregon	$1,670	3.04%	None	n.a.	n.a.
Pennsylvania	$1,631	2.71%	None	n.a.	n.a.
Rhode Island	$2,526	4.09%	None	n.a.	n.a.
South Carolina	$1,272	2.68%	0.1%	Unlimited	Pay both
South Dakota	$1,532	2.66%	None	n.a.	n.a.
Tennessee	$834	1.61%	0.25%	Unlimited	Pay both
Texas	$2,098	3.99%	None	n.a.	n.a.
Utah	$1,153	2.32%	None	n.a.	n.a.
Vermont	$2,938	4.82%	None	n.a.	n.a.
Virginia	$1,770	2.94%	None	n.a.	n.a.
Washington	$1,703	2.53%	None	n.a.	n.a.
West Virginia	$963	2.22%	None	n.a.	n.a.
Wisconsin	$1,685	3.07%	None	n.a.	n.a.
Wyoming	$2,062	3.29%	0.02%	Unlimited	Pay both
District of Columbia	$3,969	4.73%	None	n.a.	n.a.

(a) Based on a fixed dollar payment schedule. Effective tax rates decrease as taxable capital increases.
Note: States without a capital stock tax are listed as “not applicable” (n.a.) within Table 20.
Source: Tax Foundation calculations from U.S. Census Bureau data; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 21.
State Property Tax Bases (as of July 1, 2022)

	Tangible Personal Property Tax	Intangible Property Tax	Inventory Tax	Real Estate Transfer Tax	Split Roll Ratio	Estate Tax	Inheritance Tax	Gift Tax
Alabama	Yes	Yes	No	Yes	2.00	No	No	No
Alaska	Yes	No	Partial	No	No Split Roll	No	No	No
Arizona	Yes	No	No	No	1.80	No	No	No
Arkansas	Yes	No	Yes	Yes	No Split Roll	No	No	No
California	Yes	No	No	Yes	No Split Roll	No	No	No
Colorado	Yes	No	No	Yes	4.03	No	No	No
Connecticut	Yes	No	No	Yes	2.17	Yes	No	Yes
Delaware	No	No	No	Yes	No Split Roll	No	No	No
Florida	Yes	No	No	Yes	No Split Roll	No	No	No
Georgia	Yes	No	Partial	Yes	No Split Roll	No	No	No
Hawaii	No	No	No	Yes	3.54	Yes	No	No
Idaho	Yes	No	No	No	No Split Roll	No	No	No
Illinois	No	No	No	Yes	1.61	Yes	No	No
Indiana	Yes	No	No	No	No Split Roll	No	No	No
Iowa	No	Yes	No	Yes	1.66	No	Yes	No
Kansas	Yes	No	No	No	2.17	No	No	No
Kentucky	Yes	Yes	Yes	Yes	No Split Roll	No	Yes	No
Louisiana	Yes	Yes	Yes	No	No Split Roll	No	No	No
Maine	Yes	No	No	Yes	No Split Roll	Yes	No	No
Maryland	Yes	No	Yes	Yes	No Split Roll	Yes	Yes	No
Massachusetts	Yes	No	Partial	Yes	No Split Roll	Yes	No	No
Michigan	Yes	No	Partial	Yes	No Split Roll	No	No	No
Minnesota	Partial	No	No	Yes	1.60	Yes	No	No
Mississippi	Yes	Yes	Yes	No	1.50	No	No	No
Missouri	Yes	No	No	No	1.75	No	No	No
Montana	Yes	No	No	No	1.40	No	No	No
Nebraska	Yes	No	No	Yes	No Split Roll	No	Yes	No
Nevada	Yes	No	No	Yes	No Split Roll	No	No	No
New Hampshire	Partial	No	No	Yes	No Split Roll	No	No	No
New Jersey	No	No	No	Yes	No Split Roll	No	Yes	No
New Mexico	Yes	No	No	No	No Split Roll	No	No	No
New York	No	No	No	Yes	3.79	Yes	No	No
North Carolina	Yes	No	No	Yes	No Split Roll	No	No	No
North Dakota	Partial	No	No	No	1.11	No	No	No
Ohio	No	No	No	Yes	No Split Roll	No	No	No
Oklahoma	Yes	No	Yes	Yes	1.23	No	No	No
Oregon	Yes	No	No	No	No Split Roll	Yes	No	No
Pennsylvania	No	No	No	Yes	No Split Roll	No	Yes	No
Rhode Island	Yes	No	No	Yes	No Split Roll	Yes	No	No
South Carolina	Yes	No	No	Yes	1.50	No	No	No
South Dakota	Partial	Yes	No	Yes	No Split Roll	No	No	No
Tennessee	Yes	Yes	No	Yes	1.60	No	No	No
Texas	Yes	Yes	Yes	No	No Split Roll	No	No	No
Utah	Yes	No	No	No	1.82	No	No	No
Vermont	Yes	No	Partial	Yes	No Split Roll	Yes	No	No
Virginia	Yes	No	Yes	Yes	No Split Roll	No	No	No
Washington	Yes	No	No	Yes	No Split Roll	Yes	No	No
West Virginia	Yes	No	Yes	Yes	No Split Roll	No	No	No
Wisconsin	Yes	No	No	Yes	No Split Roll	No	No	No
Wyoming	Yes	No	No	No	1.21	No	No	No
District of Columbia	Yes	No	No	Yes	2.08	Yes	No	No

Note: Split roll ratio represents the ratio between commercial and residential property taxes.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 22.

State Unemployment Insurance Tax Rates (as of July 1, 2022)

State	Minimum Rate	Maximum Rate	Taxable Wage Base	Most Favorable Schedule		Least Favorable Schedule	
				Minimum Rate	Maximum Rate	Minimum Rate	Maximum Rate
Alabama	1.15%	7.30%	$8,000	0.14%	5.40%	0.65%	6.80%
Alaska	1.00%	5.40%	$45,200	1.00%	6.50%	1.00%	6.50%
Arizona	0.08%	20.93%	$10,000	0.02%	5.40%	0.02%	5.40%
Arkansas	0.30%	14.20%	$10,000	0.10%	6.00%	0.80%	6.00%
California	1.60%	6.20%	$7,000	0.10%	5.40%	1.50%	6.20%
Colorado	0.75%	10.39%	$17,000	0.51%	6.28%	0.75%	10.39%
Connecticut	1.90%	6.80%	$15,000	0.50%	5.40%	0.50%	5.40%
Delaware	0.30%	8.20%	$14,500	0.10%	8.00%	0.10%	8.00%
Florida	0.10%	5.40%	$7,000	0.10%	5.40%	0.10%	5.40%
Georgia	0.04%	8.10%	$9,500	0.01%	5.40%	0.04%	8.10%
Hawaii	0.21%	5.40%	$51,600	0.00%	5.40%	2.40%	6.60%
Idaho	0.25%	5.40%	$46,500	0.18%	5.40%	0.96%	6.80%
Illinois	0.73%	7.63%	$12,960	0.20%	6.40%	0.20%	6.40%
Indiana	0.50%	7.40%	$9,500	0.00%	5.40%	0.75%	10.20%
Iowa	0.00%	7.50%	$34,800	0.00%	7.00%	0.00%	9.00%
Kansas	0.20%	7.60%	$14,000	0.20%	7.60%	0.20%	7.60%
Kentucky	0.30%	10.00%	$10,800	0.00%	9.00%	1.00%	10.00%
Louisiana	0.09%	6.20%	$7,700	0.09%	6.00%	0.09%	6.00%
Maine	0.74%	6.37%	$12,000	0.00%	5.40%	0.00%	5.40%
Maryland	1.00%	10.50%	$8,500	0.30%	7.50%	2.20%	13.50%
Massachusetts	1.11%	16.22%	$15,000	0.56%	8.62%	1.21%	18.55%
Michigan	0.06%	10.30%	$9,500	0.00%	6.30%	0.00%	6.30%
Minnesota	0.60%	9.50%	$38,000	0.10%	9.00%	0.40%	9.40%
Mississippi	0.20%	5.60%	$14,000	0.00%	5.40%	0.00%	5.40%
Missouri	0.00%	6.75%	$11,000	0.00%	5.40%	0.00%	7.80%
Montana	0.13%	6.30%	$38,100	0.00%	6.12%	1.62%	6.12%
Nebraska	0.00%	5.40%	$9,000	0.00%	5.40%	0.00%	5.40%
Nevada	0.30%	5.40%	$36,600	0.25%	5.40%	0.25%	5.40%
New Hampshire	0.60%	9.00%	$14,000	0.10%	7.00%	0.10%	8.50%
New Jersey	0.50%	5.80%	$36,600	0.30%	5.40%	1.30%	7.70%
New Mexico	0.33%	6.40%	$28,700	0.33%	5.40%	0.33%	5.40%
New York	2.10%	9.90%	$12,000	0.00%	5.90%	1.50%	8.90%
North Carolina	0.06%	5.76%	$28,000	0.06%	5.76%	0.06%	5.76%
North Dakota	0.08%	9.69%	$38,400	0.01%	5.40%	0.01%	5.40%
Ohio	0.80%	10.20%	$9,000	0.00%	6.30%	0.30%	6.70%
Oklahoma	0.30%	7.50%	$24,800	0.10%	5.50%	0.30%	9.20%
Oregon	0.90%	5.40%	$47,700	0.50%	5.40%	2.20%	5.40%
Pennsylvania	1.29%	9.93%	$10,000	0.00%	8.95%	0.00%	8.95%
Rhode Island	1.20%	9.80%	$24,600	0.21%	7.40%	1.20%	10.00%
South Carolina	0.06%	5.46%	$14,000	0.00%	5.40%	0.00%	5.40%
South Dakota	0.00%	9.85%	$15,000	0.00%	9.30%	0.00%	9.45%
Tennessee	0.01%	10.00%	$7,000	0.01%	10.00%	0.50%	10.00%
Texas	0.31%	6.31%	$9,000	0.00%	6.00%	0.00%	6.00%
Utah	0.20%	7.30%	$41,600	0.00%	7.00%	0.00%	7.00%
Vermont	0.80%	6.50%	$15,500	0.40%	5.40%	1.30%	8.40%
Virginia	0.33%	6.43%	$8,000	0.00%	5.40%	0.10%	6.20%
Washington	0.23%	8.03%	$62,500	0.00%	5.40%	0.00%	5.40%
West Virginia	1.50%	8.50%	$9,000	0.00%	7.50%	1.50%	7.50%
Wisconsin	0.00%	12.00%	$14,000	0.00%	10.70%	0.07%	10.70%
Wyoming	0.48%	8.85%	$27,700	0.00%	8.50%	0.00%	8.50%
District of Columbia	2.10%	7.60%	$9,000	0.10%	5.40%	1.90%	7.40%

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022); U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (2021).

TABLE 23.

State Unemployment Insurance Tax Bases: Experience Formulas and Charging Methods (as of July 1, 2022)

State	Experience Formula Based On	Benefits Are Charged to Employers in Proportion to Base Period Wages	Company Charged for Benefits If: Employee's Benefit Award Reversed	Reimbursements on Combined Wage Claims	Employee Left Voluntarily	Employee Discharged for Misconduct	Employee Refused Suitable Work	Employee Continues to Work for Employer Part-Time
Alabama	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
Alaska	Payroll Decline	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
Arizona	Reserve Ratio	Yes	No	No	No	No	Yes	No
Arkansas	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
California	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Colorado	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Connecticut	Benefits Ratio	Yes	No	No	No	No	No	No
Delaware	Benefit Wage Ratio	Yes	No	No	No	No	No	No
Florida	Benefits Ratio	Yes	No	Yes	No	No	No	No
Georgia	Reserve Ratio	No (b)	No	No	No	No	No	Yes
Hawaii	Reserve Ratio	Yes	Yes	No	No	No	No	No
Idaho	Reserve Ratio	No (c)	No	No	No	No	Yes	No
Illinois	Benefits Ratio	No (b)	No	No	No	No	No	No
Indiana	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Iowa	Benefits Ratio	No (a)	No	No	No	No	No	No
Kansas	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No
Kentucky	Reserve Ratio	No (b)	Yes	No	No	No	No	No
Louisiana	Reserve Ratio	Yes	No	No	No	No	No	No
Maine	Reserve Ratio	No (b)	No	Yes	No	No	No	No
Maryland	Benefits Ratio	Yes	No	Yes	No	Yes	Yes	No
Massachusetts	Reserve Ratio	No (a)	No	Yes	Yes	Yes	Yes	No
Michigan	Benefits Ratio	Yes	Yes	No	No	No	No	No
Minnesota	Benefits Ratio	Yes	No	No	No	No	Yes	No
Mississippi	Benefits Ratio	Yes	Yes	Yes	No	No	No	No
Missouri	Reserve Ratio	Yes	No	No	No	No	No	No
Montana	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Nebraska	Reserve Ratio	No (a)	No	Yes	No	No	Yes	No
Nevada	Reserve Ratio	No (c)	Yes	No	No	No	Yes	Yes
New Hampshire	Reserve Ratio	No (b)	No	No	No	No	No	No
New Jersey	Reserve Ratio	Yes	No	Yes	No	No	No	Yes
New Mexico	Benefits Ratio	Yes	No	Yes	No	No	No	No
New York	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
North Carolina	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No
North Dakota	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Ohio	Reserve Ratio	Yes	No	No	No	No	No	No
Oklahoma	Benefit Wage Ratio	Yes	No	Yes	No	No	No	No
Oregon	Benefits Ratio	Yes	No	No	No	No	Yes	No
Pennsylvania	Benefits Ratio	Yes	No	No	No	No	Yes	No
Rhode Island	Reserve Ratio	No	No	No	No	No	No	No
South Carolina	Benefits Ratio	No (b)	No	No	No	No	No	No
South Dakota	Reserve Ratio	No (a)	No	Yes	No	No	Yes	Yes
Tennessee	Reserve Ratio	Yes	No	No	No	No	Yes	No
Texas	Benefits Ratio	Yes	No	Yes	No	No	Yes	Yes
Utah	Benefits Ratio	Yes	No	No	No	No	Yes	No
Vermont	Benefits Ratio	Yes	No	No	No	No	No	No
Virginia	Benefits Ratio	No (b)	Yes	No	Yes	Yes	Yes	Yes
Washington	Benefits Ratio	Yes	Yes	Yes	No	No	Yes	No
West Virginia	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Wisconsin	Reserve Ratio	Yes	Yes	No	No	No	No	Yes
Wyoming	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
District of Columbia	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No

(a) Benefits charged to base-period employers, most recent first (inverse order).
(b) Benefits charged to most recent employer.
(c) Benefits charged to employer who paid largest amount of wages.
Note: Alaska uses a payroll decline experience formula, so other features are listed as not applicable (n.a.).
Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022).

TABLE 24.

State Unemployment Insurance Tax Bases: Other Variables (as of July 1, 2022)

State	Solvency Tax	Taxes for Socialized Costs or Negative Balance Employer	Loan and Interest Repayment Surtaxes	Reserve Taxes	Surtaxes for UI Administration or Non-UI Purposes	Temporary Disability Insurance	Voluntary Contributions	Time Period to Qualify for Experience Rating (Years)
Alabama	No	Yes	Yes	No	Yes	No	No	2.5
Alaska	Yes	No	No	No	Yes	No	No	1
Arizona	No	No	Yes	No	No	No	Yes	2
Arkansas	Yes	No	Yes	No	Yes	No	Yes	3
California	Yes	No	No	No	Yes	Yes	Yes	3
Colorado	Yes	No	Yes	No	No	No	Yes	1
Connecticut	Yes	No	Yes	No	No	No	No	1
Delaware	Yes	No	Yes	No	Yes	No	No	2
Florida	No	No	Yes	No	No	No	No	2.5
Georgia	Yes	No	No	No	Yes	No	Yes	3
Hawaii	No	No	Yes	No	Yes	Yes	No	1
Idaho	No	No	Yes	Yes	Yes	No	No	1.5
Illinois	Yes	No	No	No	No	No	No	3
Indiana	Yes	No	Yes	No	No	No	Yes	3
Iowa	No	No	Yes	Yes	No	No	No	3
Kansas	Yes	No	No	No	No	No	Yes	2
Kentucky	No	No	Yes	No	Yes	No	Yes	3
Louisiana	Yes	Yes	Yes	No	Yes	No	Yes	2
Maine	No	No	Yes	No	Yes	No	No	2
Maryland	No	No	No	No	Yes	No	No	2
Massachusetts	Yes	No	No	No	Yes	No	Yes	3
Michigan	Yes	Yes	Yes	No	No	No	Yes	1
Minnesota	Yes	No	Yes	No	Yes	No	Yes	1
Mississippi	No	No	No	No	Yes	No	No	3
Missouri	Yes	No	Yes	No	No	No	Yes	2
Montana	No	No	No	No	Yes	No	No	3
Nebraska	No	No	No	Yes	No	No	Yes	1
Nevada	No	No	Yes	No	Yes	No	No	3
New Hampshire	Yes	No	No	No	Yes	No	No	1
New Jersey	Yes	No	Yes	No	Yes	Yes	Yes	3
New Mexico	No	No	No	No	No	No	Yes	2
New York	Yes	No	Yes	No	Yes	Yes	No	1.25
North Carolina	Yes	No	No	Yes	No	No	Yes	2
North Dakota	No	No	No	No	No	No	Yes	1
Ohio	Yes	Yes	No	No	No	No	Yes	1.25
Oklahoma	Yes	No	No	No	Yes	No	No	2
Oregon	No	No	Yes	No	Yes	No	No	1
Pennsylvania	Yes	No	Yes	No	No	No	Yes	1.5
Rhode Island	No	No	No	No	Yes	No	Yes	3
South Carolina	No	No	Yes	No	Yes	No	No	1
South Dakota	Yes	No	No	No	Yes	No	Yes	2
Tennessee	Yes	No	Yes	No	No	No	No	3
Texas	Yes	Yes	Yes	No	Yes	No	Yes	1.5
Utah	No	Yes	No	No	No	No	No	1
Vermont	No	No	No	No	No	No	No	1
Virginia	Yes	Yes	No	No	No	No	No	1
Washington	Yes	Yes	Yes	No	Yes	No	Yes	1.5
West Virginia	No	No	Yes	No	No	No	Yes	3
Wisconsin	Yes	No	Yes	No	Yes	No	Yes	3
Wyoming	Yes	Yes	No	No	Yes	No	No	3
District of Columbia	No	No	Yes	No	Yes	No	No	3

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022); U.S. Department of Labor, *Comparison of State Unemployment Laws* (2021).

DATA TABLES

ABOUT THE TAX FOUNDATION

The Tax Foundation is the nation's leading independent tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy at the federal, state, and global levels. Our Center for State Tax Policy uses research to foster competition among the states and advises policymakers on how to improve their tax systems.

CENTER FOR STATE TAX POLICY

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The Tax Foundation's *State Business Tax Climate Index* enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare. While there are many ways to show how much is collected in taxes by state governments, the *Index* is designed to show how well states structure their tax systems, and provides a road map to improving these structures.

TAX FOUNDATION

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#12904

Complaining about a problem without proposing a solution is called whining.
-Teddy Roosevelt

Roughrider POLICY CENTER

Bette B. Grande
President & CEO

January 11, 2023

House Bill 1158 - House Finance and Taxation Committee

Chairman Headland and members of the House Finance and Taxation Committee:

My name is Bette Grande and I am CEO of Roughrider Policy Center, thank you for the opportunity to speak to you about HB 1158. Moving to the lowest flat tax in the country is the right move for North Dakota. This tax reform will benefit families and small businesses and will help attract and retain the workforce we need for our growing economy.

I served on this Committee for several sessions and reducing income tax rates was always a priority. Steady progress was made then under Chairman Belter and that has continued under Chairman Headland. HB 1158 is a strong commitment to the people of North Dakota.

Individuals and small business owners will benefit greatly from a simpler, fairer, and flatter tax code. This is a move in the right direction and will reduce the use of income tax credits that too often amount to picking winners and losers. Eliminating state income tax for 60% of us and having a low 1.5% flat tax for the rest will help families struggling with inflation and help our economy. The majority of businesses in North Dakota are pass-through entities and HB 1158 will help small businesses grow and compete.

North Dakota has a lot to offer with our quality of life, jobs, and economic opportunity. Our population continues to grow and as our people thrive it will put our state in the position to eliminate the personal income tax completely.

When I served on this Committee we often heard about the '3-legged stool' but a lot of states - states we compete with for workers and businesses – have eliminated personal income taxes. We have a strong business sector and are blessed with natural resources and the tired old 3-legged stool is holding our state back. It is time to stand on two feet and do what is right for the taxpayers in North Dakota by flattening and streamlining our tax laws.

It is never a bad thing when people keep more of their own money.

For Liberty,

Bette Grande

Roughrider Policy Center
North Dakota's Think Tank
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#12911

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January 11, 2023

To: Members of the North Dakota House Committee on Finance and Taxation
Re: Testimony of Grover Norquist, President, Americans for Tax Reform in Support of House Bill 1158

Chairman Headland and Members of the Committee,

My name is Grover Norquist, I am President of Americans for Tax Reform (ATR). I founded ATR in 1985 at the request of President Reagan. Today, we continue to advocate for reducing the tax burden, and sponsor the Taxpayer Protection Pledge, a written commitment made by elected officials to their voters to oppose tax increases.

Thank you for having me here today to testify in support of House Bill 1158, and discuss the trends and benefits of reducing, flattening, and eliminating income taxes. And thank you Chairman Headland for your continued leadership on income tax reform, and to all the members of the House who have voted to eliminate the state income tax previously.

HB 1158 is a strong tax reform bill that will create a single rate flat tax of 1.5%, while eliminating any income tax obligation for lower income earners (under $44,725 per year).

This would give North Dakota the lowest flat tax of any state in the nation, making the state tax climate one of the most welcoming in the country. Though the state would remain behind the no-income-tax states, including neighboring South Dakota – for now.

A flat rate is a huge and important step forward. It makes it more difficult for future tax increases to be enacted. Future politicians could no longer divide taxpayers into different groups and take their earnings one at a time. Having a lower, flat rate would also put North Dakota in a strong position to eliminate the state income tax entirely.

States that have low, or no, income taxes are winning the competition for people, jobs, and economic growth. Meanwhile high-tax states like California and New York are watching people stampede through the exits.

The 10 states that gained the most residents from domestic in-migration had an average total state and local tax burden of 7.7% of income, compared to 10% of income for the 10 states that lost the most residents. Americans are voting with their feet.

Red states are learning this lesson, and leading by reducing their tax burdens. In 2021, 14 states cut their income taxes, in 2022 we saw eight more state income tax cuts. There are currently eight states with no income tax, New Hampshire will soon be the ninth. 10 more states have begun phasing their income taxes to zero.

Many of the legislative leaders who achieved these results are enthusiastic about helping you do the same. They are willing to share their guidance, so please do not hesitate to reach out to them:

In Arizona, House Speaker Ben Toma (BTOMA@azleg.gov) and Senate Finance Committee Chairman J.D. Mesnard (JMESNARD@azleg.gov) have been key in passing and expediting Arizona's new, lowest-in-the-nation 2.5% flat tax rate, which is in effect as of January 1, 2023.

For Iowa, Senate Majority Leader Jack Whitver (jack.whitver@legis.iowa.gov) and Senate Ways & Means Chairman Dan Dawson (dan.dawson@legis.iowa.gov) led the effort to massively cut one of the highest income tax rates in the nation to one of the lowest over the next few years.

For Kentucky, House Speaker David Osborne (David.Osborne@lrc.ky.gov) and Senate President Robert Stivers (Robert.Stivers@lrc.ky.gov) overrode a Governor's veto to put the state on a path to eliminate the income tax entirely over the next decade.

For Mississippi, House Speaker Phil Gunn (pgunn@house.ms.gov), House Speaker Pro Tempore Jason White (jwhite@house.ms.gov), and House Ways & Means Chair Trey Lamar (jlamar@house.ms.gov), worked with Governor Reeves to move the state to a flat rate and enact the largest income tax cut in state history.

For North Carolina, Senate President Phil Berger (contact Clay Vick: clay.vick@ncleg.gov) and North Carolina Speaker Tim Moore (contact deputy chief of staff, Dan Gurley: dan.gurley@ncleg.gov) have been vital in that state's leadership of flattening and cutting income taxes over time using revenue benchmarks to achieve long term success while putting taxpayers first.

North Dakota should be a leader among these states. The state GDP declined slightly between 2017 and 2022. Income tax reform would help the state grow and broaden its economy, attract and retain workers, and make it an easier place to raise a family and start a small business. Remember, many small business owners file taxes as individuals.

You are in a tremendous position to get it done. The state already has a relatively modest income tax, it has record revenues coming in (meaning too much taxpayer money is being taken), and it has the Legacy Fund – a growing reserve that should be used to put money back in the pockets of North Dakotans – before someone spends it on growing the government.

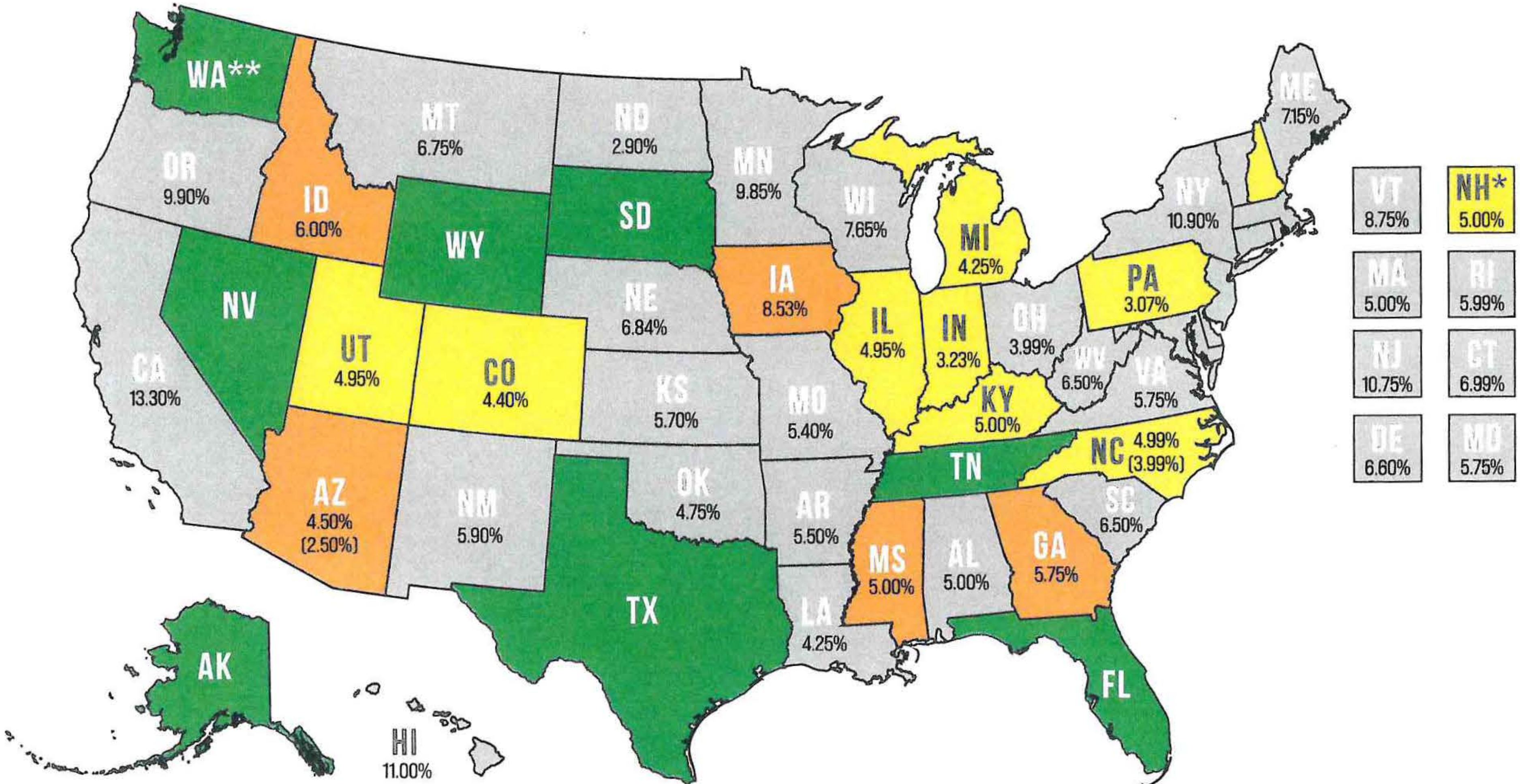
Tax relief is also an opportunity for the Republican-led legislature to set a contrast with Democrats in Washington D.C. who are taking money out of North Dakotans' pockets through new tax hikes, high-cost energy policies, and high inflation.

Governor Burgum and many state legislators support flattening and reducing the income tax. The time is now for North Dakota to lead on income tax reform. If we can be of any assistance, please contact me or State Projects Director Doug Kellogg at dkellogg@atr.org, (202) 785-0266.

Thank you.

AMERICANS for TAX REFORM

ZERO & FLAT INCOME TAX STATES



STATES WITH ZERO INCOME TAX | STATES WITH A FLAT INCOME TAX | STATES THAT PASSED LEGISLATION TO MOVE TO A FLAT INCOME TAX | STATES WITH GRADUATED INCOME TAXES

* NEW HAMPSHIRE HAS A TAX ON INVESTMENT INCOME, BUT A NEW LAW WAS ENACTED THAT WILL SOON PHASE OUT THE TAX BY THE END OF 2026.

** A CAPITAL GAINS TAX WAS ENACTED BY THE WA LEGISLATURE IN 2021 BUT ITS IMPOSITION HAS BEEN ENJOINED PENDING THE OUTCOME OF A LAWSUIT CHALLENGING THE TAX AS UNCONSTITUTIONAL.

NOTE: PERCENTAGES REFLECT THE TOP MARGINAL STATE INDIVIDUAL INCOME TAX RATES AS OF JANUARY 1, 2022.

#12915

AMERICANS for TAX REFORM

For more information contact Adam Radman, Director of Advocacy, at aradman@atr.org

Taxpayer Protection Pledge

I, ____________, pledge to the taxpayers of the state of _________ and to the American people that I will:
One, oppose any and all efforts to increase the marginal income tax rates for individuals and/or businesses; and Two, oppose any net reduction or elimination of deductions and credits, unless matched dollar for dollar by further reducing tax rates.

TAXPAYER PROTECTION PLEDGE SIGNERS

HOUSE PLEDGE SIGNERS: 186

SENATE PLEDGE SIGNERS: 43

ALABAMA

- Katie Britt (SEN)
- Tommy Tuberville (SEN)
- Jerry Carl (AL-01)
- Barry Moore (AL-02)
- Mike Rogers (AL-03)
- Robert Aderholt (AL-04)
- Dale Strong (AL-05)
- Gary Palmer (AL-06)

ALASKA

- Lisa Murkowski (SEN)
- Dan Sullivan (SEN)

ARIZONA

- David Schweikert (AZ-01)
- Andy Biggs (AZ-05)
- Juan Ciscomani (AZ-06)
- Debbie Lesko (AZ-08)
- Paul Gosar (AZ-09)

ARKANSAS

- John Boozman (SEN)
- Tom Cotton (SEN)
- Rick Crawford (AR-01)
- French Hill (AR-02)
- Steve Womack (AR-03)
- Bruce Westerman (AR-04)

CALIFORNIA

- Doug LaMalfa (CA-01)
- Kevin Kiley (CA-03)
- Tom McClintock (CA-05)
- John Duarte (CA-13)
- Kevin McCarthy (CA-20)
- David Valadao (CA-22)
- Young Kim (CA-40)
- Ken Calvert (CA-41)
- Michelle Steel (CA-45)
- Darrell Issa (CA-48)

COLORADO

- Ken Buck (CO-04)
- Doug Lamborn (CO-05)

FLORIDA

- Marco Rubio (SEN)
- Rick Scott (SEN)
- Matt Gaetz (FL-01)
- Neal Dunn (FL-02)
- Kat Cammack (FL-03)
- John Rutherford (FL-05)
- Michael Waltz (FL-06)
- Cory Mills (FL-07)
- Bill Posey (FL-08)
- Daniel Webster (FL-11)
- Gus Bilirakis (FL-12)
- Anna Paulina Luna (FL-13)
- Laurel Lee (FL-15)
- Vern Buchanan (FL-16)
- Greg Steube (FL-17)
- Scott Franklin (FL-18)
- Brian Mast (FL-21)
- Byron Donalds (FL-19)
- Mario Diaz-Balart (FL-26)
- Maria Elvira Salazar (FL-27)

GEORGIA

- Earl Carter (GA-01)
- Drew Ferguson (GA-03)
- Rick McCormick (GA-06)
- Austin Scott (GA-08)
- Andrew Clyde (GA-09)
- Mike Collins (GA-10)

- Barry Loudermilk (GA-11)
- Rick Allen (GA-12)
- Marjorie Greene (GA-14)

IDAHO

- Mike Crapo (SEN)
- Jim Risch (SEN)
- Mike Simpson (ID-02)

ILLINOIS

- Mary Miller (IL-15)
- Darin LaHood (IL-16)

INDIANA

- Todd Young (SEN)
- Michael Braun (SEN)
- Jim Banks (IN-03)
- Greg Pence (IN-06)
- Larry Bucschon (IN-08)
- Erin Houchin (IN-09)

IOWA

- Joni Ernst (SEN)
- Mariannette Miller-Meeks (IA-01)
- Zach Nunn (IA-03)
- Randy Feenstra (IA-04)

KANSAS

- Jerry Moran (SEN)
- Tracey Mann (KS-01)
- Jake LaTumer (KS-02)
- Ron Estes (KS-04)

KENTUCKY

- Mitch McConnell (SEN)
- Rand Paul (SEN)
- James Comer (KY-01)
- Brett Guthrie (KY-02)
- Thomas Massie (KY-04)
- Hal Rogers (KY-05)
- Andy Barr (KY-06)

LOUISIANA

- John Kennedy (SEN)
- Bill Cassidy (SEN)
- Steve Scalise (LA-01)
- Clay Higgins (LA-03)
- Mike Johnson (LA-04)

MARYLAND

- Andy Harris (MD-01)

MICHIGAN

- John Bergman (MI-01)
- Bill Huizenga (MI-04)
- John Moolenaar (MI-02)
- Tim Walberg (MI-05)
- Lisa McClain (MI-09)
- John James (MI-10)

MINNESOTA

- Tom Emmer (MN-06)
- Michelle Fischbach (MN-07)
- Pete Stauber (MN-08)

MISSISSIPPI

- Roger Wicker (SEN)
- Cindy Hyde-Smith (SEN)
- Michael Guest (MS-03)

MISSOURI

- Eric Schmitt (SEN)
- Ann Wagner (MO-02)
- Blaine Luetkemeyer (MO-03)
- Mark Alford (MO-04)
- Sam Graves (MO-06)
- Eric Burlison (MO-07)
- Jason Smith (MO-08)

MONTANA

- Steve Daines (SEN)
- Ryan Zinke (MT-01)
- Matt Rosendale (MT-02)

NEBRASKA

- Deb Fischer (SEN)
- Ben Sasse (SEN)
- Mike Flood (NE-01)
- Donald Bacon (NE-02)
- Adrian Smith (NE-03)

NEVADA

- Mark Amodei (NV-02)

NEW JERSEY

- Chris Smith (NJ-04)
- Tom Kean, Jr (NJ-07)

NEW YORK

- Nicholas LaLota (NY-01)
- Mike Lawler (NY-17)
- Brandon Williams (NY-22)
- Claudia Tenney (NY-24)

NORTH CAROLINA

- Ted Budd (SEN)
- Thom Tillis (SEN)
- Greg Murphy (NC-03)
- Virginia Foxx (NC-05)
- David Rouzer (NC-07)
- Dan Bishop (NC-08)
- Richard Hudson (NC-09)
- Patrick McHenry (NC-10)
- Chuck Edwards (NC-11)

NORTH DAKOTA

- Kevin Cramer (SEN)
- Kelly Armstrong (ND-AL)

OHIO

- J.D. Vance (SEN)
- Rob Portman (SEN)
- Jim Jordan (OH-04)
- Bob Latta (OH-05)
- Bill Johnson (OH-06)
- Max Miller (OH-07)
- Warren Davidson (OH-08)
- Mike Turner (OH-10)
- Troy Balderson (OH-12)
- Mike Carey (OH-15)

OKLAHOMA

- James Lankford (SEN)
- Markwayne Mullin (SEN)
- Kevin Hern (OK-01)
- Josh Brecheen (OK-02)
- Frank Lucas (OK-03)
- Tom Cole (OK-04)
- Stephanie Bice (OK-05)

OREGON

- Cliff Bentz (OR-02)
- Lori Chavez-DeRemer (OR-05)

PENNSYLVANIA

- Daniel Meuser (PA-09)
- Lloyd Smucker (PA-11)
- Glenn Thompson (PA-15)
- Mike Kelly (PA-16)

SOUTH CAROLINA

- Tim Scott (SEN)
- Lindsey Graham (SEN)
- Nancy Mace (SC-01)
- Joe Wilson (SC-02)
- Jeff Duncan (SC-03)
- William Timmons (SC-04)
- Ralph Norman (SC-05)
- Russell Fry (SC-07)

SOUTH DAKOTA

- John Thune (SEN)
- David Johnson (SD-AL)

TENNESSEE

- Marsha Blackburn (SEN)
- Bill Hagerty (SEN)
- Diana Harshbarger (TN-01)
- Tim Burchett (TN-02)
- Chuck Fleischmann (TN-03)
- Scott DesJarlais (TN-04)
- Andy Ogels (TN-05)
- Mark Green (TN-07)
- David Kustoff (TN-08)

TEXAS

- John Cornyn (SEN)
- Ted Cruz (SEN)
- Nathaniel Moran (TX-01)
- Dan Crenshaw (TX-02)
- Keith Self (TX-03)
- Lance Gooden (TX-05)
- Jake Ellzey (TX-06)
- Morgan Luttrell (TX-08)
- Michael McCaul (TX-10)
- August Pfluger (TX-11)
- Kay Granger (TX-12)
- Ronny Jackson (TX-13)
- Randy Weber (TX-14)
- Monica de la Cruz-Hernandez (TX-15)
- Pete Sessions (TX-17)
- Chip Roy (TX-21)
- Troy Nehls (TX-22)
- Tony Gonzales (TX-23)
- Beth Van Duyne (TX-24)
- Roger Williams (TX-25)
- Michael Burgess (TX-26)
- Michael Cloud (TX-27)
- John Carter (TX-31)
- Brian Babin (TX-36)
- Wesley Hunt (TX-38)

UTAH

- Mike Lee (SEN)
- Mitt Romney (SEN)
- Blake Moore (UT-01)
- John Curtis (UT-03)
- Burgess Owens (UT-04)

VIRGINIA

- Jen Kiggans (VA-02)
- Bob Good (VA-05)
- Ben Cline (VA-06)
- Morgan Griffith (VA-09)

WASHINGTON

- Dan Newhouse (WA-04)
- Cathy McMorris-Rodgers (WA-05)

WEST VIRGINIA

- Shelley Moore Capito (SEN)
- Carol Miller (WV-01)
- Alex Mooney (WV-02)

WISCONSIN

- Ron Johnson (SEN)
- Bryan Steil (WI-01)
- Derrick Van Orden (WI-03)
- Scott Fitzgerald (WI-05)
- Glenn Grothman (WI-06)
- Tom Tiffany (WI-07)
- Mike Gallagher (WI-08)

WYOMING

- John Barrasso (SEN)
- Cynthia Lummis (SEN)
- Harriet Hageman (WY-AL)

GOP U.S. House

Non- Pledge Signers: 36

Eli Crane (AZ-02)

Jay Obernolte (CA-23)

Mike Garcia (CA-27)

Lauren Boebert (CO-03)

Aaron Bean (FL-04)

Carlos Gimenez (FL-28)

Russ Fulcher (ID-01)

Mike Bost (IL-12)

Rudy Yakym (IN-02)

James Baird (IN-04)

Victoria Spartz (IN-05)

Ashley Hinson (IA-02)

Julia Letlow (LA-05)

Garret Graves (LA-06)

Brad Finstad (MN-01)

Trent Kelly (MS-01)

Mike Ezell (MS-04)

Jeff Van Drew (NJ-02)

Andrew Garbarino (NY-02)

George Santos (NY-03)

Anthony D'Esposito (NY-04)

Nicole Malliotakis (NY-11)

Marcus Molinaro (NY-19)

Elise Stefanik (NY-21)

Nick Langworthy (NY-23)

Brad Wenstrup (OH-02)

David Joyce (OH-14)

Brian Fitzpatrick (PA-01)

Scott Perry (PA-10)

John Joyce (PA-13)

Guy Reschenthaler (PA-14)

John Rose (TN-06)

Pat Fallon (TX-04)

Jodey Arrington (TX-19)

Chris Stewart (UT-02)

Rob Wittman (VA-01)

GOP U.S. Senate

Non-Pledge Signers: 6

Chuck Grassley (SEN-IA)

Roger Marshall (SEN-KS)

Susan Collins (SEN-ME)

Josh Hawley (SEN-MO)

Mike Rounds (SEN-SD)

John Hoeven (SEN-ND)

Governor Doug Burgum Testimony on HB 1158
January 11, 2023
House Finance and Taxation Committee
Room 327E
Representative Craig Headland, Chairman

Doug Burgum – Governor of North Dakota

Chairman Headland, members of the committee, for the record, my name is Doug Burgum.

As you know, North Dakota's finances are in very good shape, perhaps the best shape in our state's 123-year history. Our combined reserves are the highest ever. Our general fund revenues are running 23 percent, or over $700 million, ahead of forecast. Our oil tax revenues are running 60 percent, or over $1.5 billion, ahead of forecast. We have more than $8 billion in the Legacy Fund and $5.7 billion in the Common Schools Trust Fund.

And when the state is doing well, citizens should share in that prosperity – especially when competition for workers is fierce and every advantage helps as we try to attract and retain workers in North Dakota.

To accomplish these dual goals of tax relief and workforce attraction, we support the income tax relief proposed in House Bill 1158 – the largest income tax relief package in state history. This bill will eliminate the state individual income tax for approximately three out of five taxpayers. Those who will still pay income tax will see their liability reduced by roughly one-quarter to one-half, allowing North Dakotans to keep more of their hard-earned money – an estimated $566 million next biennium – to offset expenses and invest in their families and communities.

Every North Dakota income taxpayer will benefit from this plan, which will make North Dakota the lowest flat-tax state in the nation. Again, this would effectively eliminate the state's individual income tax for nearly 60% of income taxpayers. The rest would pay a flat tax of 1.5%, compared to current income tax rates that range from 2.04% to 2.9%. That translates to a reduction from 26% to 48% in their state income taxes.

This puts us on a path toward eventually zeroing out our individual income tax and joining the eight states that don't have individual income tax. These include some of our nation's fastest-growing states and ones with whom we compete for workers in the

Good morning Chairman Headland and Members of the Committee,

My name is Timothy Vermeer, and I am a Senior Policy Analyst with the Tax Foundation. Thank you for the opportunity to testify today on the impact of the proposed individual income tax rate reduction.

By many metrics, North Dakota's economy is in a strong position. According to the most recent employment situation report published by the U.S. Bureau of Labor Statistics (BLS), the unemployment rate in November in North Dakota was 2.3 percent.[1] Since 2000, the average annual unemployment rate for the state has been 3.2 percent. Historically, the national natural unemployment rate, the rate at which supply and demand for labor is at an equilibrium has been near 4 percent. By both those metrics, North Dakota's labor market is very tight. As of October, the most recent month of reported Job Opening and Labor Turnover Survey data by the BLS, there were nearly three open jobs for every unemployed person, but therein lies the problem.[2] The principal factor limiting North Dakota's economic growth is the size of the labor force.[3]

The state unemployment rate in February 2020, at the peak of the pre-pandemic business cycle, was 2.2 percent. The unemployment rate spiked to 8.3 percent at the worst point in the COVID recession but steadily recovered to pre-pandemic levels by September 2022. What has not recovered is the number of people in the labor force and the number of people employed in North Dakota.

While the labor force participation rate had recovered to its pre-pandemic level by June 2022, that figure masks an underlying problem.[4] Nearly 6,700 people have left the state's labor force since February

[1] [illegible]

[2] [illegible]

[3] [illegible]

[4] [illegible]

2020, precisely the same amount as employment levels have fallen over the same period.[5] This number accounts for roughly 25 percent of the 26,000 job openings reported in October 2022.

Compounding the labor force challenge has been relatively anemic population growth in the state. According to data from the US Census Bureau, between 2016 and 2021, North Dakota has seen net population growth of only 4,000 people and net domestic outmigration of 21,400 residents. Compare this to the period between 2010 and 2021 when net population growth totaled 87,000 people and the state saw net in-migration of 38,121 new residents.[6]

People make decisions to work or reside in a particular jurisdiction for a variety of reasons. Among other things, businesses care about an educated workforce—the greater the stock of human capital, the greater a firm's productivity. Companies care about access to infrastructure and efficiently delivering their goods to market. They care about government services including police, fire, and emergency medical services. Individuals and families care about school quality, weather patterns, and housing prices. Wage and salary levels and purchasing power also matter. The weight each person places on these factors will vary significantly. But what businesses require to remain open, and what every family needs to stay in their home, is money. Thus, tax policies come into play.

States do not institute tax policy in a vacuum. Every change to a state's tax system makes its business tax climate more or less competitive compared to other states and makes the state more or less attractive to individuals and families. Until Arizona converted its individual income tax to a flat rate of 2.5 percent on January 1, North Dakota had the lowest top marginal individual income tax rate among states that levied the tax. If HB 1158 passes, North Dakota would again have the lowest individual income tax rate at 1.5 percent.

The challenge here is that states in the region and across the country that directly compete with North Dakota forgo at least one major tax, often the individual income tax, and thus effectively have a top

[illegible]

[illegible]

[illegible]

marginal rate of 0 percent. Alaska, South Dakota, Texas, and Wyoming—which tend to have robust energy and natural resource industries, like North Dakota—are among the states that do not levy an individual income tax. South Dakota and Wyoming also forgo a corporate income tax while Montana goes without a sales tax. That North Dakota currently has a top rate of 2.9 percent, modest as it is, may be enough to dissuade some who would otherwise pay nothing and file no return in a state that does not assess an income tax.

Although everyone puts a different emphasis on the importance various tax policies play, tax policies *do* affect how much discretionary income a business owner has to hire another employee. Tax policies *do* affect how much income an individual has to purchase a new appliance or to save for a home. At some point, taxes *do* matter, and it is that marginal impact that matters in North Dakota.

Reducing the individual income tax would improve the state's tax neutrality and lower barriers to productivity on the margin. As workers and small business owners consider the impact of taxation on their next dollar of income, they implicitly consider the extensive and intensive effects of taxation-- *whether* to work or invest and *how much* to work or invest. A lower, flatter income tax rate sets conditions for in-migration and an increase in the labor force in North Dakota. Reducing the top rate will also impact the amount of work people choose to perform. When workers can take more of their next dollar home, it will, on the margin, incentivize those already employed to work an additional term (an extra hour or week, or perhaps full time vs. part time).

Income tax reduction is good for economic growth, because tax rates influence how much people work; and all things being equal, it makes a difference in where people choose to live. But while competitive rates are an important reason for this growth, they are not the only reason. If North Dakota moves forward with the reforms of HB 1158, budget sustainability will continue to play an important role in realizing the full potential of the bill's structural alterations.

Policymakers in many states have contemplated the total repeal of the individual income tax, and while that may stimulate economic activity that does not mean it is the right or responsible decision for every state. With that said, it may end up being the right decision for North Dakota. First, North Dakota does not rely on the individual income tax to the extent that some states do. In fiscal year 2019, the individual income tax only generated 6.2 percent of the state's total tax collection.[7] Second, the top marginal rate is already low enough that eventual repeal is within sight. The potential challenge is budget sustainability.

The wrong timing or wrong combination of revenue reductions or spending restrictions could make service delivery especially challenging. North Dakota policymakers have wisely avoided inadvertently fashioning unfunded liabilities with past reforms by making incremental changes and assessing the sustainability of future reforms each biennium. The current proposal comes at a time when many economists suggest that a recession is still possible sometime in 2023, which could pose a concern for many states' budgets. While that is not a concern to be dismissed out of hand, we find that to be less threatening in this case as the current bill does not include a total repeal and the state is in a healthy financial position with over $3.5 billion in savings and surplus expected by the end of the current budget biennium.[8]

If the intent is to eliminate or repeal the individual income tax in a future biennium, the feasibility of that legislation may depend on the structure put in place this year. While the current bill exempts the first nearly $45,000 of taxable income for singles and nearly $75,000 for married filers, doing so may actually make getting to zero harder in the future. First, the narrower the tax base, the fewer people future reforms directly benefit. Additionally, if it turns out that the state becomes reliant on the revenue generated by the remaining income payers, it will be even harder to responsibly eliminate the tax. The longer the tax is levied on a narrow base, the harder it is to generate interest in repeal. Lastly, it is likely many of the skilled workers, including tradesmen and those who own trade businesses, many of those that this bill intends to attract, will earn more income than this legislation exempts. In that case a nominal income tax liability will remain for those taxpayers this biennium. In our view, a simpler, more neutral

[7] [illegible]

[8] [illegible]

reform that would also generate the greatest possibility for future elimination of the income tax would be to create a truly flat tax that applies to the current base but at a rate somewhere below the current proposal of 1.5 percent.

Many factors influence the location decisions of individuals and families, workers and employers. Many aspects of these decisions, including family ties and weather, transcend government control, but the individual income tax is one that policymakers *can* affect. A lower, flatter rate will improve the tax neutrality of North Dakota and is likely to yield improvements to the labor force and labor force participation.

Thank you again for the opportunity to testify today. I'm happy to answer any questions you may have.

International Union of Painters & Allied Trades
District Council 82
AFL-CIO
Affiliated Locals, 61 - 106 - 386 - 681 - 880 - 1324 - 1922 - 1962 - 2002

House Bill No. 1158
Testimony-IN SUPPORT
Jeff Stark, Business Manager/Secretary-Treasurer
International Union of Painters & Allied Trades District Council 82
Senate Finance and Taxation Committee
March 13, 2023

Chairman Kannianen and members of the Senate Finance and Taxation Committee, I am Jeff Stark, Business Manager/Secretary-Treasurer for the International Union of Painters & Allied Trades District Council 82. On behalf of the International Union of Painters and Finishing Trades (IUPAT), I am here today to offer our support for House Bill 1158, to reduce the personal income taxes of all hard-working North Dakota taxpayers.

The International Union of Painters & Allied Trades District Council 82 provides a voice for almost 3,00 workers in the finishing trades across Minnesota, Montana, North Dakota, South Dakota, and western Wisconsin. Our members are trained in a variety of industry needs, including industrial and commercial painting, drywall finishing, glazing, glass work, sign installation, convention workers, silk screen paint making and embroidery.

Our support for this bill is not a union or non-union matter, it is about hard-working North Dakotans getting the tax relief they need and deserve right now. With the price of gas, food, day-care, clothes, you name it, going up right now – our members strongly believe the pinch on middle class families has reached a breaking point. By eliminating income taxes for a large portion of North Dakota taxpayers, it will put money in their family budgets right away and provide them with ongoing saving they can count on.

We whole heartedly agree with Governor Doug Burgum when he said in his state of the state address, "Let's show our working families in North Dakota that we understand their struggles by expediting this income tax relief legislation and making it one of the first bills to be signed this session."

By eliminating three out of the five tax brackets, and reducing the remaining tax rate to 1.5%, North Dakota will have the lowest income tax rate of any state in the country that has an income tax. Our members, and all North Dakotans will feel that relief and have more money to put back into the state's economy, helping to build a better future for all of us.

Like many other organizations and businesses in North Dakota, we are struggling to find more workers. The tax relief in this bill will help both labor and management equally and show that the state of North Dakota is serious about attracting new workers in this highly competitive workforce market.

Our members are looking for a commitment on tax relief from their elected representatives that is permanent and consistent. HB 1158 provides that commitment. By using the one-time funding from budget surpluses to fund permanent tax relief, you are creating a legacy of economic growth for generations to come, for our members and all North Dakotans.

Mr. Chairman and members of the Senate Finance and Taxation Committee, we believe this bill will provide critical relief for IUPAT members and all North Dakotans. We strongly urge your support and ask you to pass this bill as quickly as possible so Governor Burgum can sign it into law.

Thank you for your consideration.

Written testimony on House Bill 1158

Chairman Kannianen and Senate Finance and Taxation Committee Members

My name is Kevin Herrmann, 300 Fair St. SW, Beulah, ND 58523. I am a single independent North Dakota taxpayer.

I stand in opposition of House Bill 1158. First, I will start with Governor Burgum press release on August 24, 2022 stating no state income tax for married couple filing jointly under $95,600 and single under $54,725 but with House Bill 1158 has married couples filing jointly is under 74,750 and single under 44,725. The difference between press release and House Bill 1158 for married couples is $20,850 and single is $10,000. Why is there a difference between press release in August 24, 2022 and House Bill 1158? Who is not telling the truth?

Second, House Bill 1158 will keep the single individual in paying more in state income tax in order to subsidize married couples again. This bill will have single individual pay more in state income tax at $44,725 compare to the current state income tax rate structure. At $44,725 state tax income will be $670.89 with this bill while the current state income tax rate at $44,725 would be $560.34. This is a tax increase of $110.55 with House Bill 1158. Why does the Governor Burgum, Brian Kroshus and all sponsors of House Bill 1158 keep on screwing over single individuals? Who is not telling the truth?

I challenge all sponsors of House Bill 1158 to a public debate in front of the local press that House Bill 1158 is a tax increase for single individuals of income of $44,725 or higher.

Again, I oppose House Bill 1158 because this bill is not a fair flat tax structure.

Kevin Herrmann
Home phone number 701-873-4163

THE CHAMBER
FARGO MOORHEAD WEST FARGO

FMWF Chamber Letter of Support – Competitive Tax Structure

March 13th, 2023

Chair Kannianen and Members of the Senate Finance and Taxation Committee,

For the record, my name is Cale Dunwoody, and I am the Director of Public Policy for the Fargo Moorhead West Fargo (FMWF) Chamber of Commerce. The Chamber's mission is to be a catalyst for economic growth and prosperity for businesses, members, and the greater community. On behalf of our over 1,900 members, I respectfully offer testimony in support of increasing North Dakota's tax competitiveness through income and property tax relief.

As you know, workforce is a major challenge facing every employer across the nation and North Dakota businesses are not exempt from these challenges. Our local businesses have seen firsthand the challenges of attracting and retaining talented individuals in the current employment and economic market. Many of the states across this nation are evaluating their budgets, regulations, and taxes to create a more competitive environment in hopes to attract and retain workers. In order to effectively compete on a national and global scale for workforce, the state of North Dakota must continue to evaluate its tax structure.

We believe it is important to underscore the importance of a robust tax climate that promotes economic growth and prosperity. While we recognize the dichotomy amongst the state as it relates to income and property tax relief, we support the legislature's willingness to compromise and bring a multi-prong tax relief solution to hundreds of thousands of North Dakotans. As a community that borders a high-tax and high-regulation state like Minnesota, we see the real-world impacts of a competitive tax and regulatory structure.

In conclusion, while every state looks to compete for workforce, our state must continue to find creative solutions to keep North Dakota competitive and enhance our ability to attract and retain highly skilled personnel. The current income and property tax proposals do exactly that by expanding opportunities and incentivizing individuals to remain or relocate to North Dakota.

On behalf of our members, I would like to thank committee members for their time and would respectfully urge the legislature to continue supporting a positive tax climate for both property and income tax.

Respectfully,

Cale Dunwoody
Director of Public Policy
FMWF Chamber of Commerce
Cdunwoody@fmwfchamber.com

HB 1158 – Testimony by Dustin Gawrylow (Lobbyist #266) North Dakota Watchdog Network

The North Dakota Watchdog Network is in favor of the proposed Flat Income Tax.

The large universal exemption approach is the most fair way to prevent regressivity in the changes. Working classes receive a 100% income tax cut immediately.

We urge the committee to check the math to ensure there is no marriage penalties.

It appears there may be as the $74,750 married filing jointly is not exactly double the $44,775 threshold for single filers. And the married filing separately threshold of $37,375 is also not equal to the single filer rate.

If this was intentional, please explain the reasoning.

If it was not intentional, an amendment should be offered to fix this oddity.

Americans Moved to Low-Tax States in 2022

January 10, 2023

Janelle Fritts

Americans were on the move in 2022 and chose low-tax states over high-tax ones. That's the finding of recent U.S. Census Bureau population data and commercial datasets released this week by U-Haul and United Van Lines.

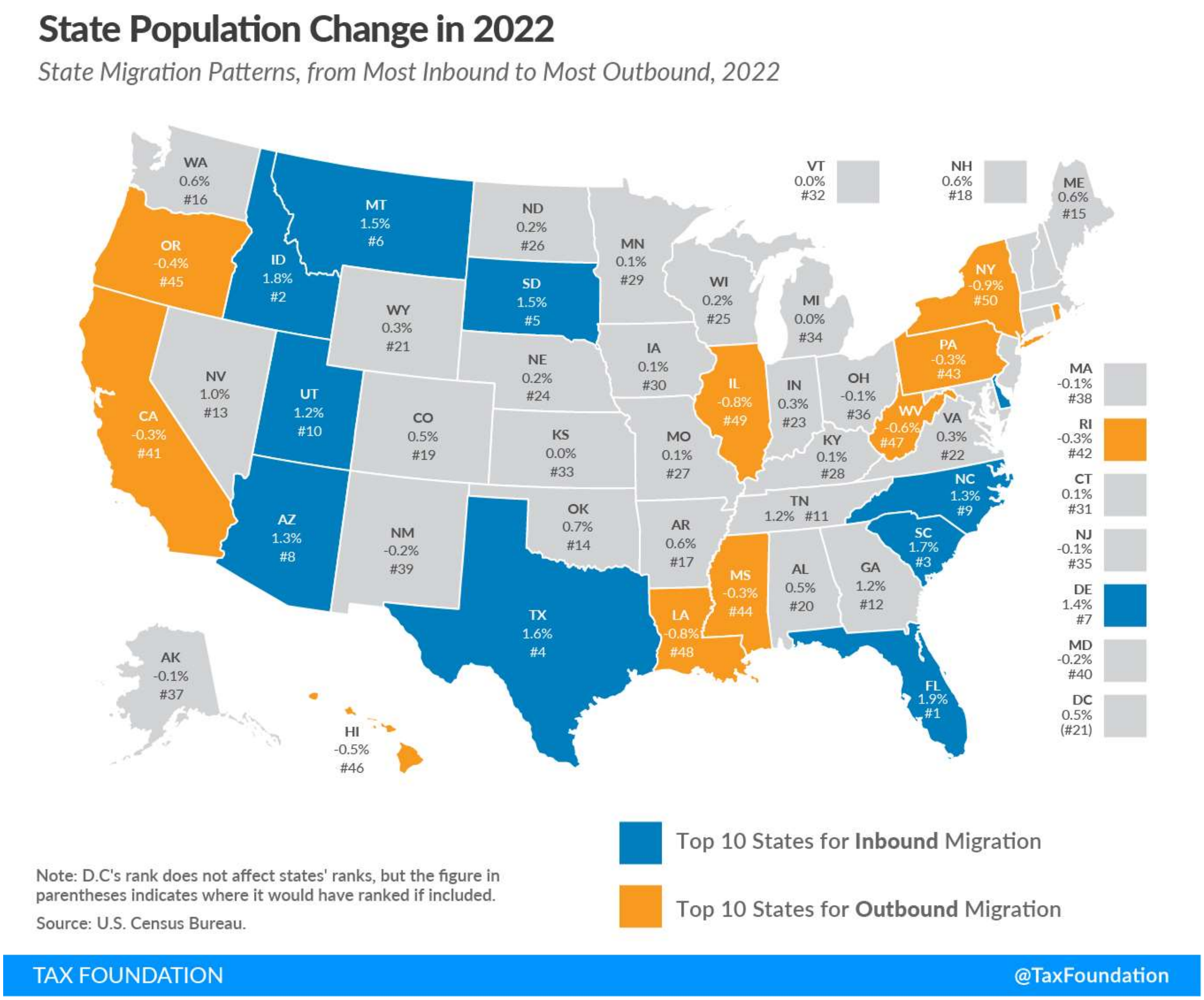
The U.S. population grew 0.4 percent between July 2021 and July 2022, an increase from the previous year's historically low rate of 0.1 percent. While international migration helped numbers on the national level, interstate migration was still a key driver of state population numbers. New York's population shrunk by 0.9 percent between July 2021 and July 2022, Illinois lost 0.8 percent of its population, and Louisiana (also 0.8 percent), West Virginia (0.6 percent), and Hawaii (0.5 percent) rounded out the top five jurisdictions for population loss. At the same time, Florida gained 1.9 percent, while Idaho, South Carolina, Texas, South Dakota, Montana, Delaware, Arizona, North Carolina, Utah, Tennessee, Georgia, and Nevada all saw population gains of 1 percent or more.

This population shift paints a clear picture: people left high-tax, high-cost states for lower-tax, lower-cost alternatives.

The individual income tax is illustrative here (though only one component of overall tax burdens, it is often highly salient). In the top third of states for population growth (including D.C.), the average combined top marginal state income tax rate is about 4.0 percent. In the bottom third, it's about 6.6 percent.

Six states in the top third forgo taxes on wage income (Florida, Texas, South Dakota, Tennessee, and Nevada, as well as Washington, which taxes capital gains income but not wage income), and the highest top rate in that cohort is Maine's 7.15 percent.

Among the bottom third, five jurisdictions—California, Hawaii, New Jersey, New York, and Oregon—have double-digit income tax rates, and—excepting Alaska, with no income tax—the lowest rate is in Pennsylvania, where a low state rate of 3.07 percent is paired with some of the highest local income tax rates in the country. Six states in the bottom third have local income taxes; only one in the top third does.



he Census data shows population gains and losses, but not cross-border migration. (The Census provides migration data but on a longer time delay.) Moving data from U-Haul and United Van Lines, while less robust—and undoubtedly influenced by their geographic coverage—speaks more directly to cross-border migration and is confirmatory. Both companies see states like California, Illinois, Massachusetts, and

New York as the biggest losers, while states like Texas, Florida, and Tennessee are among the largest net gainers.

Low-Tax States Saw More Population Growth and Higher Inbound Migration

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
Alabama	20	20	10
Alaska	37	41	n.a.
Arizona	8	7	20
Arkansas	17	43	18
California	41	50	40
Colorado	19	11	31
Connecticut	31	28	39
Delaware	7	27	5
District of Columbia	(21)	36	7
Florida	1	2	12
Georgia	12	8	19
Hawaii	46	n.a.	n.a.
Idaho	2	10	15
Illinois	49	49	48
Indiana	23	14	22
Iowa	30	21	34
Kansas	33	39	36
Kentucky	28	26	24
Louisiana	48	35	41
Maine	15	29	17
Maryland	40	44	30
Massachusetts	38	47	43
Michigan	34	48	46
Minnesota	29	17	29
Mississippi	44	34	37
Missouri	27	15	25
Montana	6	18	28
Nebraska	24	32	42
Nevada	13	13	26
New Hampshire	18	38	14

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
New Jersey	35	45	49
New Mexico	39	19	9
New York	50	46	47
North Carolina	9	4	6
North Dakota	26	37	32
Ohio	36	9	38
Oklahoma	14	42	33
Oregon	45	22	2
Pennsylvania	43	24	44
Rhode Island	42	40	3
South Carolina	3	3	4
South Dakota	5	31	8
Tennessee	11	6	11
Texas	4	1	16
Utah	10	12	35
Vermont	32	30	1
Virginia	22	5	21
Washington	16	23	23
West Virginia	47	25	13
Wisconsin	25	16	27
Wyoming	21	33	45
Sources: U.S. Census Bureau; U-Haul; United Van Lines.			

These industry studies record total migrations, whereas population data can be put in percentage terms, so large states like Texas—which, according to the Census Bureau, had the most population growth in nominal terms, but fourth-most in percentage terms—show up prominently while smaller states that saw large population surges, like Idaho, are somewhat lower on the list.

Another story from the industry data that is less apparent in Census population data is regional competition, even among comparatively high-tax states. Vermont is first in the United Van Lines data but middle-of-the-pack for overall population change because the state benefited from outmigration from densely populated Northeastern cities.

Similarly, U-Haul has relatively few inbound trips to Oklahoma, New Hampshire, and a few other states compared to United Van Lines and, more importantly, to Census data on population growth. Relatively local moves, such as those within the D.C. metropolitan area, can make a jurisdiction like the District of Columbia look like it is doing very well on United Van Lines data even though the Census data shows much milder growth. The industry data has limitations, but it remains informative.

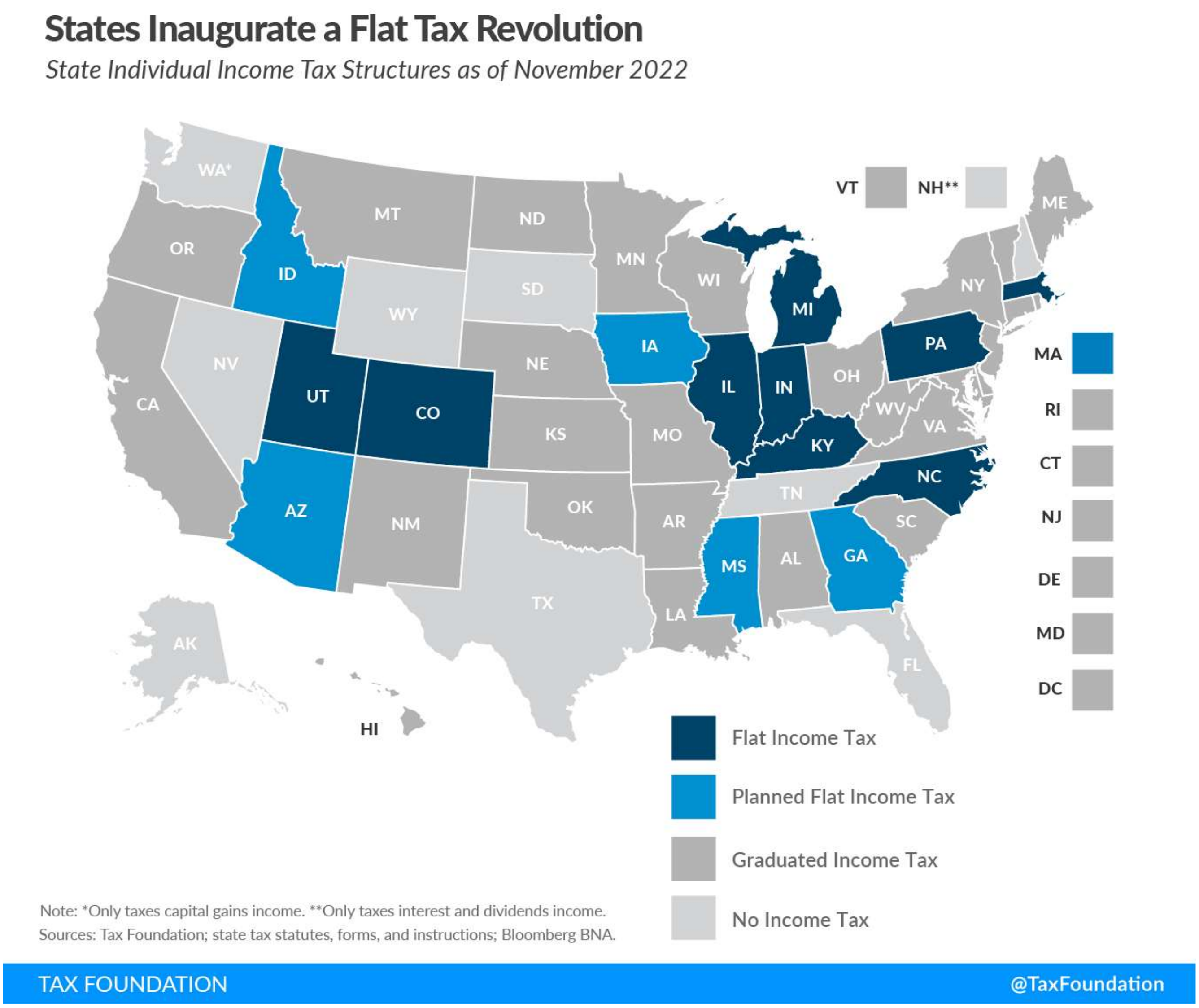
People move for many reasons. Sometimes taxes are expressly part of the calculation. Often, they play an indirect role (by contributing to a broadly favorable economic environment). And other times, of course, they don’t factor in at all. The Census data and these industry studies cannot tell us exactly why each person moved, but there is no denying a very strong correlation between low-tax, low-cost states and population growth. With many states responding to robust revenues and heightened state competition by cutting taxes, these trends may only get larger.

The pandemic has accelerated changes to the way we live and work, making it far easier for people to move—and they have. As states work to maintain their competitive advantage, they should pay attention to where people are moving, and try to understand why.

States Inaugurate a Flat Tax Revolution

November 14, 2022

In more than a century of state income taxes, only four states have ever transitioned from a graduated-rate income tax to a flat tax. Another four adopted legislation doing so *this year*, and a planned transition in a fifth state is now going forward under a recent court decision. In what is already a year of significant bipartisan focus on tax relief, 2022 is also launching something of a flat tax revolution.



In 1987, the 75th anniversary of state income taxation, Colorado replaced its half century-old graduated-rate income tax with a single-rate tax. It would take another 30 years for another state to follow suit, when Utah implemented a flat tax in 2007. Next came North Carolina in 2014, as part of that state's comprehensive reforms, and most recently, Kentucky implemented a single rate of 5 percent in 2019. They joined five other states which already had flat taxes: Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania.

The first state income tax, implemented in Wisconsin in 1912, had a two-rate structure. The first flat tax was Massachusetts' tax, which went into effect in 1917. Five states had income taxes back then, with Massachusetts and Virginia both implementing them that January. Only five years passed between the first progressive income tax and the first flat income tax, but 75 years passed between the first progressive income tax and the first time one was transitioned from graduated to single rate. It took more than a century for three to do so—and four states have adopted legislation to make that transition just this year, with a fifth cleared for the transition by a court decision and a two more potentially in the wings.

Iowa is phasing in a 3.9 percent flat individual income tax by 2026, going from a graduated-rate tax that not long ago topped out at 8.98 percent. Mississippi will have a flat tax as of next year, with a 4 percent rate by 2026. Georgia's income tax is now scheduled to convert to a flat rate of 5.49 percent, eventually phasing down to 4.99 percent. A court cleared the way for the implementation of Arizona's transition to a 2.5 percent flat tax, which should happen, pending revenue availability, in 2024. In special session, Idaho adopted a 5.8 percent flat tax, replacing a four-bracket system. Missouri has been called into special session to adopt income tax rate cuts, but a flat tax could still be a consideration, soon if not this session, and a serious effort at adopting a flat tax is likely in Oklahoma next year.

Supporters of flat taxes often identify the simplicity as one of their salient features. This is true, but it's important to stop and ask what is meant by this. It is not enough to merely state that a single rate is simpler than multiple rates, because, while trivially true, it tells us relatively little. It is not particularly difficult to use tax tables to ascertain one's tax liability.

Flat taxes are meaningfully simple, however, in several ways. It is easier to forecast revenue under a flat tax, and to project the revenue effects of potential tax changes. It is easier for taxpayers to estimate their tax liability and how it would change under different income scenarios, which enhances tax transparency and potentially improves some economic decision-making. It accords better with impressions that taxpayers form of tax burdens based on headline rates, such that individuals and small businesses may be more attracted to a state with a relatively lower flat rate than one with a graduated-rate system that would yield similar liability. And it simplifies the function by which taxpayers decide whether to work or invest more on the margin, since all marginal returns to labor and investment are exposed to the same rate.

Of greater significance for taxpayers, however, is that flat-rate income taxes tend to function as a bulwark against unnecessary tax increases, and to provide greater certainty for individual and business taxpayers. Economic decisions are made on the margin; choices about investments, labor, or relocation will be made on the basis of the effect on the next dollar of income, not the prior ones. A competitive top marginal rate matters most for economic growth, and flat income taxes—given their "all-in" nature—not only mean a lower rate on that all-important margin, but tend to be harder to raise in the future, whereas highly graduated taxes are more susceptible to targeted, but often economically inefficient, tax hikes.

Taxpayers seem to sense this intuitively: it seems to have been persuasive in Illinois, for instance, where voters lopsidedly rejected a constitutional amendment permitting a graduated-rate structure even though the initially proposed tax increase would not increase tax liability for the vast majority of voters. They seemed to recognize that, once the principle was established, higher rates would be established for more and more taxpayers—even setting aside the implications for the state's economic competitiveness.

This is one reason why states with nearly-flat taxes should consider finishing the job. In Alabama, for instance, the current three-bracket system, with the top rate kicking in at $3,000 of income, only provides $40 in tax savings compared to taxing all income at the top rate. Raising the standard deduction would easily provide the same progressive benefits while embracing the simplicity and—more importantly—the certainty and stability of a single-rate tax. Five other states likewise have top rates that kick in at or below $10,000, including Idaho and Mississippi, which are now transitioning to a flat tax, and Oklahoma, where a flat tax is under active consideration.

Six States Have Nearly Flat Graduated-Rate Income Taxes

State	Brackets	Top Rate Kick-In	Maximum Savings
Alabama	3	$3,000	$40
Georgia	6	$7,000	$173
Idaho	4	$7,939	$222
Mississippi	2	$10,000	$50
Missouri	9	$8,704	$145
Oklahoma	6	$7,200	$191
State statutes; Tax Foundation calculations			

These states now present an opportunity for reform culminating in a flat tax, but they also serve as a cautionary tale about the implications of not indexing a graduated-rate income tax. When Alabama adopted its graduated-rate income tax in 1935, the majority of taxpayers were fully exempt, and few taxpayers were subject to the top marginal rate of 5 percent on income above $3,000, which is equivalent to almost $63,500 in 2022, higher than today's median household income in the state and a small fortune in Depression-era Alabama. Over time, the lack of inflation indexing has subjected the vast majority of taxpayers' income to the top marginal rate. The same is true in Georgia, where policymakers have adopted a very gradual approach to a flat tax. Georgia's top rate has kicked in at $7,000 since 1955, when it was equivalent to about $75,000 in today's dollars.

Of the nine states that already have flat taxes, five enshrine that status in their state constitution, locking in the benefit and making it harder for lawmakers to raise taxes by switching to a progressive tax regime. This is a particularly important protection for small business owners, since about 95 percent of all businesses are pass-through businesses subject to individual, not corporate, income taxes, and the vast majority of pass-through business income is earned by companies exposed to states' top marginal income tax rates. In Illinois, for instance, where lawmakers championed a failed constitutional amendment to permit a graduated-rate income tax, 93 percent of pass-through business income was on returns with more than $200,000 in adjusted gross income (AGI), and over half of all pass-through business income was reported on returns showing more than $1 million in AGI. Hiking the top marginal rate is not just about the wealthy; it is about the state's small businesses too, and about providing a greater level of certainty for entrepreneurs making location decisions.

The states now transitioning to flat taxes, and those which have not yet constitutionally protected their current single-rate tax structures, should consider doing so. The following table shows states which currently have, or are on track to implement, a flat tax, with date of implementation (past or future) and whether a single rate tax is constitutionally mandated. Of the five states that have had flat taxes from the start, four enshrine this status in their constitution. Of the four that transitioned, only one does.

14 States Have, Or Are Implementing, Flat Income Taxes

State	**PIT Adopted**	**Flat As Of**	**Constitutional**
Arizona	*1933*	*2024*	
Colorado	1937	1987	✓
Georgia	*1929*	*2024*	
Idaho	*1931*	*2023*	
Illinois	1969	Always	✓
Indiana	1965	Always	

State	PIT Adopted	Flat As Of	Constitutional
Iowa	*1934*	*2026*	
Kentucky	1936	2019	
Massachusetts	1917	Always	✓
Michigan	1967	Always	✓
Mississippi	*1912*	*2023*	
North Carolina	1921	2014	
Pennsylvania	1971	Always	✓
Utah	1971	2007	

Notes: Georgia, Idaho, Iowa, and Mississippi are implementing flat taxes in accordance with legislation enacted this year, while in Arizona, a court has cleared the implementation of a 2021 law. Implementation dates in Arizona and Georgia are contingent on revenue availability.
Sources: State statutes; Tax Foundation research.

States shifted from graduated to single-rate income taxes in 1987, 2007, 2014, and 2019. A recent court decision will allow a 2021 law in Arizona to move forward. With new laws beginning that transition in Arizona, Georgia, Iowa, and Mississippi, 2022 has already seen the enactment or legal clearance of as many new flat taxes as we've seen transition in the history of state income taxes to date, and that's before any action is taken in Missouri and Oklahoma.

#24124

TAX FOUNDATION

2023 STATE BUSINESS TAX CLIMATE INDEX

BY
JANELLE FRITTS
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EXECUTIVE SUMMARY

The Tax Foundation's *State Business Tax Climate Index* enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare. While there are many ways to show *how much* is collected in taxes by state governments, the *Index* is designed to show *how well* states structure their tax systems and provides a road map for improvement.

The absence of a major tax is a common factor among many of the top 10 states. Property taxes and unemployment insurance taxes are levied in every state, but there are several states that do without one or more of the major taxes: the corporate income tax, the individual income tax, or the sales tax. Nevada, South Dakota, and Wyoming have no corporate or individual income tax (though Nevada imposes gross receipts taxes); Alaska has no individual income or state-level sales tax; Florida has no individual income tax; and New Hampshire and Montana have no sales tax.

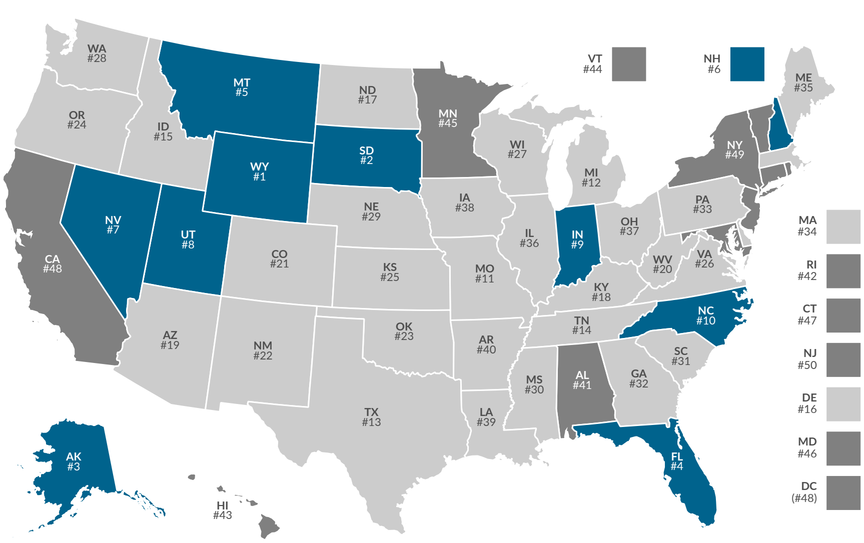
The 10 best states in this year's *Index* are:

1. Wyoming
2. South Dakota
3. Alaska
4. Florida
5. Montana
6. New Hampshire
7. Nevada
8. Utah
9. Indiana
10. North Carolina

The 10 lowest-ranked, or worst, states in this year's *Index* are:

41. Alabama
42. Rhode Island
43. Hawaii
44. Vermont
45. Minnesota
46. Maryland
47. Connecticut
48. California
49. New York
50. New Jersey

2023 *State Business Tax Climate Index*



10 Best Business Tax Climates

10 Worst Business Tax Climates

Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2022 (the beginning of Fiscal Year 2023).
Source: Tax Foundation.

This does not mean, however, that a state cannot rank in the top 10 while still levying all the major taxes. Indiana and Utah, for example, levy all the major tax types but do so with low rates on broad bases.

The states in the bottom 10 tend to have a number of afflictions in common: complex, nonneutral taxes with comparatively high rates. New Jersey, for example, is hampered by some of the highest property tax burdens in the country, has the highest-rate corporate income taxes in the county, and has one of the highest-rate individual income taxes. Additionally, the state has a particularly aggressive treatment of international income, levies an inheritance tax, and maintains some of the nation's worst-structured individual income taxes.

NOTABLE RANKING CHANGES IN THIS YEAR'S *INDEX*

Arizona

Arizona transitioned from a four-bracket individual income tax with a top rate of 4.5 percent to a two-bracket system with a top rate of 2.98 percent, a waypoint on the state's transition to a 2.5 percent single-rate tax. Initially scheduled for 2024, robust revenue growth has led to the certification of the 2.5 percent rate for January 1, 2023, a significant development that will further improve Arizona's ranking in next year's *Index*. This year's changes, however, were sufficient for Arizona to improve five places overall, from 24th to 19th.

Arkansas

Like many states, Arkansas adopted both corporate and individual income tax rate reductions. In Arkansas's case, these rate reductions—to a top individual income tax rate of 4.9 percent, down from 5.9 percent, and a corporate rate reduced from 6.2 to 5.9 percent—went into effect for the 2022 tax year. The corporate income tax rate reduction also resulted in the consolidation of an existing bracket. These changes were the primary driver of the state's improvement from 43rd to 40th overall.

Georgia

Under legislation adopted in 2022, Georgia will adopt a 5.49 percent flat-rate income tax in 2024 and ultimately phase that rate down to 4.99 percent. These changes, however, lie in the future, and for now, improvements in the tax policies of three other states—Mississippi, Nebraska, and South Carolina—saw Georgia slide three places by standing still.

Idaho

Idaho improved two places overall, from 17th to 15th, due to the implementation of individual and corporate income tax rate reductions which took the individual income tax's top rate, and the corporate income tax's flat rate, from 6.5 to 6.0 percent. A ballot measure that would have created a new top rate of 10.925 percent to raise additional revenue for public education was taken off the ballot, and a deal was struck instead to provide additional education funding while implanting a 5.8 percent flat individual income tax rate in 2023. This change, which will be reflected in next year's *Index*, will result in a further improvement in Idaho's ranking.

TABLE 1.

2023 *State Business Tax Climate Index* Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
Alabama	41	18	30	50	18	19
Alaska	3	28	1	5	26	44
Arizona	19	23	16	41	11	14
Arkansas	40	29	37	45	27	20
California	48	46	49	47	19	24
Colorado	21	7	14	40	36	42
Connecticut	47	27	47	23	50	23
Delaware	16	50	44	2	4	2
Florida	4	10	1	21	12	3
Georgia	32	8	35	31	28	35
Hawaii	43	19	46	27	32	30
Idaho	15	26	19	10	3	47
Illinois	36	38	13	38	44	43
Indiana	9	11	15	19	2	27
Iowa	38	34	40	15	40	33
Kansas	25	21	22	25	17	15
Kentucky	18	15	18	14	24	48
Louisiana	39	32	25	48	23	6
Maine	35	35	23	8	47	38
Maryland	46	33	45	30	42	41
Massachusetts	34	36	11	13	46	50
Michigan	12	20	12	11	25	8
Minnesota	45	43	43	29	31	34
Mississippi	30	13	26	33	37	5
Missouri	11	3	21	26	7	4
Montana	5	22	24	3	21	18
Nebraska	29	30	32	9	39	11
Nevada	7	25	5	44	5	46
New Hampshire	6	44	9	1	43	45
New Jersey	50	48	48	42	45	32
New Mexico	22	12	36	35	1	9
New York	49	24	50	43	49	40
North Carolina	10	5	17	20	13	10
North Dakota	17	9	27	28	9	7
Ohio	37	39	41	36	6	13
Oklahoma	23	4	31	39	30	1
Oregon	24	49	42	4	20	36
Pennsylvania	33	42	20	16	16	22
Rhode Island	42	40	33	24	41	49
South Carolina	31	6	28	32	35	29
South Dakota	2	1	1	34	14	37
Tennessee	14	45	6	46	33	21
Texas	13	47	7	37	38	12
Utah	8	14	10	22	8	16
Vermont	44	41	39	17	48	17
Virginia	26	17	34	12	29	39
Washington	28	37	8	49	22	25
West Virginia	20	16	29	18	10	26
Wisconsin	27	31	38	7	15	31
Wyoming	1	1	1	6	34	28
District of Columbia	48	29	48	39	49	38

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2022 (the beginning of Fiscal Year 2023).
Source: Tax Foundation.

Louisiana

The Bayou state implemented a package of tax reforms resulting in an improvement of three places on the *Index*, from 42nd to 39th, while improving the state's individual income tax component by nine places and the corporate and property tax components by two places each. Reforms approved by voters in November 2021 yielded the repeal of the deduction for federal taxes paid, replaced by lower statutory tax rates. The top rate of the individual income tax was cut from 6.0 to 4.25 percent, while the state's five corporate income tax brackets were consolidated into three, with a reduction in the top rate from 8 to 7.5 percent. Additionally, the capital stock tax rate was reduced from 0.3 percent to 0.275 percent, with the goal of eventual repeal through tax triggers.

Nebraska

Legislative Bill 432, signed into law in 2021, reduced Nebraska's top marginal corporate income tax rate from 7.81 percent to 7.5 percent on January 1, 2022, and will further reduce the rate to 7.25 percent in January 2023. Additional legislation (LB 873) enacted in 2022 will reduce the state's top marginal individual income tax rate from 6.84 to 5.84 percent over five years, beginning in 2023. This year's corporate tax reduction contributed to Nebraska improving one place overall, from 30th to 29th.

New Mexico

Alone among states, New Mexico used recent revenue growth to facilitate a state sales tax rate reduction, from 5.125 to 5.0 percent. New Mexico's sales tax is a hybrid tax, which the state calls a gross receipts tax, with an overly broad base that includes more business-to-business transactions than most states' sales taxes. Combined with a modest improvement in unemployment insurance taxes relative to changes in other states, this rate cut propelled New Mexico five places on the *Index*, from 27th to 22nd overall.

Oklahoma

In a tax package that may be just the beginning, Oklahoma trimmed its top marginal individual income tax rate from 5 to 4.75 percent, cut the corporate rate from 6 to 4 percent (tied for second lowest), and became the first state to make its full expensing policy permanent. Since Oklahoma already had full expensing, the latter policy does not impact the state's score for now, but with federal bonus depreciation scheduled to phase down beginning in 2023, if other states do not make their own adjustments, their provisions will become less generous while Oklahoma's pro-investment policies remain intact. Oklahoma improved five places on the *Index*, from 28th to 23rd.

South Carolina

South Carolina income tax reforms—retroactive to the first of the year—reduced the top rate from 7.0 to 6.5 percent while consolidating several brackets. The state has long had the highest top rate in the southeast, and while it maintains that distinction under this recent rate reduction, the gap between South Carolina and its neighbors has narrowed. The state improved two places on the *Index*, from 33rd to 31st, with further improvements anticipated in future years as the tax rate continues to phase down.

TABLE 2.

State Business Tax Climate Index (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	40	40	41	38	39	41	40	40	39	4.57	41	4.56	-2	-0.01
Alaska	4	4	3	3	3	3	3	3	3	7.25	3	7.23	0	-0.02
Arizona	27	26	23	24	24	23	22	23	24	5.10	19	5.26	5	0.16
Arkansas	41	42	45	42	43	46	44	46	43	4.50	40	4.57	3	0.07
California	48	48	48	48	49	48	48	48	48	3.58	48	3.56	0	-0.02
Colorado	23	22	21	21	20	18	20	19	20	5.23	21	5.17	-1	-0.06
Connecticut	47	47	47	47	47	47	47	47	47	4.10	47	4.08	0	-0.02
Delaware	18	15	15	22	22	14	15	16	16	5.33	16	5.32	0	-0.01
Florida	5	5	4	4	4	4	4	4	4	6.91	4	6.85	0	-0.06
Georgia	28	30	33	31	30	34	31	28	29	5.01	32	4.99	-3	-0.02
Hawaii	38	38	36	32	33	39	38	38	41	4.53	43	4.51	-2	-0.02
Idaho	15	18	18	18	18	20	19	20	17	5.28	15	5.33	2	0.05
Illinois	33	36	28	25	29	35	36	36	36	4.77	36	4.78	0	0.01
Indiana	10	10	10	9	9	10	10	9	9	5.64	9	5.63	0	-0.01
Iowa	45	45	46	46	46	45	45	42	38	4.67	38	4.66	0	-0.01
Kansas	22	24	26	27	28	31	34	33	23	5.14	25	5.13	-2	-0.01
Kentucky	35	35	34	37	37	19	18	17	18	5.27	18	5.27	0	0.00
Louisiana	32	33	38	45	45	42	43	41	42	4.50	39	4.62	3	0.12
Maine	30	34	35	36	35	28	29	32	34	4.96	35	4.90	-1	-0.06
Maryland	39	39	40	41	40	40	42	44	46	4.25	46	4.28	0	0.03
Massachusetts	26	28	27	28	25	30	35	35	35	4.93	34	4.95	1	0.02
Michigan	11	12	13	13	13	13	12	13	12	5.58	12	5.57	0	-0.01
Minnesota	46	46	44	44	44	44	46	45	45	4.37	45	4.35	0	-0.02
Mississippi	25	27	29	29	27	27	28	30	31	5.00	30	5.00	1	0.00
Missouri	14	16	19	15	15	15	14	11	11	5.60	11	5.59	0	-0.01
Montana	6	6	6	6	6	5	5	5	5	6.07	5	6.08	0	0.01
Nebraska	36	29	30	30	34	25	27	29	30	5.00	29	5.02	1	0.02
Nevada	3	3	5	5	5	6	7	7	6	5.94	7	5.93	-1	-0.01
New Hampshire	8	7	7	7	7	7	6	6	7	5.93	6	5.96	1	0.03
New Jersey	49	49	50	49	50	50	50	50	50	3.36	50	3.37	0	0.01
New Mexico	21	23	24	26	26	24	24	21	27	5.07	22	5.16	5	0.09
New York	50	50	49	50	48	49	49	49	49	3.50	49	3.45	0	-0.05
North Carolina	31	11	12	11	10	11	11	10	10	5.61	10	5.60	0	-0.01
North Dakota	19	19	17	17	17	16	17	18	19	5.26	17	5.29	2	0.03
Ohio	42	41	42	39	41	37	37	37	37	4.72	37	4.72	0	0.00
Oklahoma	20	21	22	20	21	26	26	25	28	5.06	23	5.15	5	0.09
Oregon	9	9	9	10	11	9	8	15	22	5.15	24	5.14	-2	-0.01
Pennsylvania	37	37	37	33	36	36	33	34	32	5.00	33	4.99	-1	-0.01
Rhode Island	44	43	39	40	38	38	39	39	40	4.54	42	4.54	-2	0.00
South Carolina	29	31	31	34	32	32	32	31	33	4.97	31	5.00	2	0.03
South Dakota	2	2	2	2	2	2	2	2	2	7.48	2	7.49	0	0.01
Tennessee	24	25	25	23	23	29	30	26	14	5.45	14	5.44	0	-0.01
Texas	12	13	11	12	12	12	13	12	13	5.55	13	5.51	0	-0.04
Utah	7	8	8	8	8	8	9	8	8	5.64	8	5.64	0	0.00
Vermont	43	44	43	43	42	43	41	43	44	4.47	44	4.44	0	-0.03
Virginia	16	17	20	19	19	21	23	24	25	5.09	26	5.07	-1	-0.02
Washington	13	14	14	14	14	17	16	14	15	5.38	28	5.03	-13	-0.35
West Virginia	17	20	16	16	16	22	21	22	21	5.18	20	5.21	1	0.03
Wisconsin	34	32	32	35	31	33	25	27	26	5.07	27	5.07	-1	0.00
Wyoming	1	1	1	1	1	1	1	1	1	7.77	1	7.76	0	-0.01
District of Columbia	47	48	47	48	48	47	47	48	48	3.86	48	3.75	0	-0.11

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Washington

Washington experienced the worst slide in *Index* ranking this year, falling 13 places from 15th to 28th, primarily due to giving up its status as a state without an income tax. The state adopted a capital gains income tax on high earners that contains a sizeable marriage penalty and is not adjusted for inflation. Washington, with its unenviably aggressive gross receipts tax and high-rate sales tax, has always been buoyed on the *Index* by forgoing an income tax. With the loss of this distinctive, the state plummeted in our rankings.

RECENT AND SCHEDULED CHANGES NOT REFLECTED IN THE 2023 *INDEX*

Georgia

On January 1, 2024, Georgia will transition from a graduated individual income tax with a top rate of 5.75 percent to a flat tax structure with a rate of 5.49 percent. Per HB 1437, the rate could decrease to 4.99 percent by January 1, 2029, if certain revenue conditions are met, paired with substantial increases in personal exemptions.

Indiana

The Hoosier State will cut its flat individual income tax rate from 3.23 to 3.15 percent in 2023. If subsequent triggers are met, the rate could be reduced to 2.9 percent by 2029.

Iowa

In Iowa, a comprehensive tax reform package will see the state's high graduated rate income tax transformed into a flat tax of 3.9 percent, with the corporate income tax declining to 5.5 percent, among other reforms. These changes are not in effect in 2022, though 2023 will usher in a consolidation of the income tax to four brackets with a top marginal rate of 6.0 percent, heading toward a flat rate tax in 2026. These changes, which accelerate and build upon two previous rounds of tax reform, will dramatically improve Iowa's ranking.

Kentucky

With the passage of HB 8, Kentucky will use revenue triggers to reduce its individual income tax by 0.5 percentage points in years in which the triggers are met. The use of these triggers could theoretically lead to the phaseout of the individual income tax in its entirety. However, even absent the elimination of the tax, rate reductions will bolster Kentucky's score in future years.

Mississippi

Under HB 531, Mississippi will eliminate its current 4 percent individual income tax bracket on January 1, 2023. This will transition the state from a graduated income tax structure to a flat rate of 5 percent. The flat rate is scheduled to decrease to 4.7 percent in 2024, 4.4 percent in 2025, and finally 4 percent in 2026.

Montana

Montana adopted structural reforms to both its individual and corporate income taxes in 2021, with the individual income tax rate seeing a modest reduction on January 1, 2022, which was not enough to change the state's rank on the *Index*—particularly given similar or larger cuts in many other states. In 2024, however, the seven brackets will be consolidated into two with a top rate of 6.5 percent, which is likely to yield a favorable ranking change. Although the lowest rate will rise to 4.7 percent in 2024, conforming to the federal standard deduction in 2025 will yield tax savings for lower-income taxpayers. This law also doubles the bracket widths for married filers, thereby removing the marriage penalty that currently exists in the state's income tax code.

New Hampshire

Currently, New Hampshire is the only state that does not impose a tax on wage or salary income but does levy a tax on interest and dividend income. Beginning in tax year 2023, the state will phase out this interest and dividends tax by one percentage point per year until it is fully repealed by 2027. This year, the state reduced the Business Profits Tax (BPT) from 7.7 to 7.6 percent and the Business Enterprise Tax (BET, a value-added tax) from 0.6 to 0.55 percent, though these changes were insufficient to result in an improvement in the state's rank. The BPT will decline further, to 7.5 percent, in 2024.

Pennsylvania

Under legislation paired with the state budget, Pennsylvania will reduce the corporate net income tax rate from 9.99 percent to 8.99 percent on January 1, 2023. Each year thereafter the rate will decrease 0.5 percentage points until it reaches 4.99 percent at the beginning of 2031, transforming the nation's second-highest corporate income tax rate into something much more competitive.

INTRODUCTION

Taxation is inevitable, but the specifics of a state's tax structure matter greatly. The measure of total taxes paid is relevant, but other elements of a state tax system can also enhance or harm the competitiveness of a state's business environment. The *State Business Tax Climate Index* distills many complex considerations to an easy-to-understand ranking.

The modern market is characterized by mobile capital and labor, with all types of businesses, small and large, tending to locate where they have the greatest competitive advantage. The evidence shows that states with the best tax systems will be the most competitive at attracting new businesses and most effective at generating economic and employment growth. It is true that taxes are but one factor in business decision-making. Other concerns also matter–such as access to raw materials or infrastructure or a skilled labor pool–but a simple, sensible tax system can positively impact business operations with regard to these resources. Furthermore, unlike changes to a state's health-care, transportation, or education systems, which can take decades to implement, changes to the tax code can quickly improve a state's business climate.

It is important to remember that even in our global economy, states' stiffest competition often comes from other states. The Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to a foreign location.[1] Certainly, job creation is rapid overseas, as previously underdeveloped nations enter the world economy, though in the aftermath of federal tax reform, U.S.

1 See U.S. Department of Labor, "Extended Mass Layoffs, First Quarter 2013," Table 10, May 13, 2013.

businesses no longer face the third-highest corporate tax rate in the world, but rather one in line with averages for industrialized nations.[2] State lawmakers are right to be concerned about how their states rank in the global competition for jobs and capital, but they need to be more concerned with companies moving from Detroit, Michigan, to Dayton, Ohio, than from Detroit to New Delhi, India. This means that state lawmakers must be aware of how their states' business climates match up against their immediate neighbors and to other regional competitor states.

Anecdotes about the impact of state tax systems on business investment are plentiful. In Illinois early last decade, hundreds of millions of dollars of capital investments were delayed when then-Governor Rod Blagojevich (D) proposed a hefty gross receipts tax.[3] Only when the legislature resoundingly defeated the bill did the investment resume. In 2005, California-based Intel decided to build a multibillion-dollar chip-making facility in Arizona due to its favorable corporate income tax system.[4] In 2010, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.[5] In 2015, General Electric and Aetna threatened to decamp from Connecticut if the governor signed a budget that would increase corporate tax burdens, and General Electric actually did so.[6] Anecdotes such as these reinforce what we know from economic theory: taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

Tax competition is an unpleasant reality for state revenue and budget officials, but it is an effective restraint on state and local taxes. When a state imposes higher taxes than a neighboring state, businesses will cross the border to some extent. Therefore, states with more competitive tax systems score well in the *Index* because they are best suited to generate economic growth.

State lawmakers are mindful of their states' business tax climates, but they are sometimes tempted to lure business with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, as the example of Dell Computers and North Carolina illustrates. North Carolina agreed to $240 million worth of incentives to lure Dell to the state. Many of the incentives came in the form of tax credits from the state and local governments. Unfortunately, Dell announced in 2009 that it would be closing the plant after only four years of operations.[7] A 2007 *USA TODAY* article chronicled similar problems other states have had with companies that receive generous tax incentives.[8]

Lawmakers make these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for an undesirable business tax climate. A far more effective approach is the systematic improvement of the state's business tax climate for the long term to improve

2 Daniel Bunn, "Corporate Income Tax Rates Around the World, 2018," Tax Foundation, Nov. 27, 2018, https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/.

3 Editorial, "Scale it back, Governor," *Chicago Tribune*, March 23, 2007.

4 Ryan Randazzo, Edythe Jenson, and Mary Jo Pitzl, "Cathy Carter Blog: Chandler getting new $5 billion Intel facility," AZCentral.com, Mar. 6, 2013.

5 Dana Hedgpeth and Rosalind Helderman, "Northrop Grumman decides to move headquarters to Northern Virginia," *The Washington Post*, April 27, 2010.

6 Susan Haigh, "Connecticut House Speaker: Tax 'mistakes' made in budget," Associated Press, Nov. 5, 2015.

7 Austin Mondine, "Dell cuts North-Carolina plant despite $280m sweetener," TheRegister.co.uk, Oct. 8, 2009.

8 Dennis Cauchon, "Business Incentives Lose Luster for States," *USA TODAY*, Aug. 22, 2007.

the state's competitiveness. When assessing which changes to make, lawmakers need to remember two rules:

1. **Taxes matter to business.** Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), employees (through lower wages or fewer jobs), shareholders (through lower dividends or share value), or some combination of the above. Thus, a state with lower tax costs will be more attractive to business investment and more likely to experience economic growth.

2. **States do not enact tax changes (increases or cuts) in a vacuum.** Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its region, and even globally. Ultimately, it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

To some extent, tax-induced economic distortions are a fact of life, but policymakers should strive to maximize the occasions when businesses and individuals are guided by business principles and minimize those cases where economic decisions are influenced, micromanaged, or even dictated by a tax system. The more riddled a tax system is with politically motivated preferences, the less likely it is that business decisions will be made in response to market forces. The *Index* rewards those states that minimize tax-induced economic distortions.

Ranking the competitiveness of 50 very different tax systems presents many challenges, especially when a state dispenses with a major tax entirely. Should Indiana's tax system, which includes three relatively neutral taxes on sales, individual income, and corporate income, be considered more or less competitive than Alaska's tax system, which includes a particularly burdensome corporate income tax but no statewide tax on individual income or sales?

The *Index* deals with such questions by comparing the states on more than 120 variables in the five major areas of taxation (corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes, and property taxes) and then adding the results to yield a final, overall ranking. This approach rewards states on particularly strong aspects of their tax systems (or penalizes them on particularly weak aspects), while measuring the general competitiveness of their overall tax systems. The result is a score that can be compared to other states' scores. Ultimately, both Alaska and Indiana score well.

Literature Review

Economists have not always agreed on how individuals and businesses react to taxes. As early as 1956, Charles Tiebout postulated that if citizens were faced with an array of communities that offered different types or levels of public goods and services at different costs or tax levels, then all citizens would choose the community that best satisfied their particular demands, revealing their preferences by "voting with their feet." Tiebout's article is the seminal work on the topic of how taxes affect the location decisions of taxpayers.

Tiebout suggested that citizens with high demands for public goods would concentrate in communities with high levels of public services and high taxes while those with low demands would choose communities with low levels of public services and low taxes. Competition among jurisdictions results in a variety of communities, each with residents who all value public services similarly.

However, businesses sort out the costs and benefits of taxes differently from individuals. For businesses, which can be more mobile and must earn profits to justify their existence, taxes reduce profitability. Theoretically, businesses could be expected to be more responsive than individuals to the lure of low-tax jurisdictions. Research suggests that corporations engage in "yardstick competition," comparing the costs of government services across jurisdictions. Shleifer (1985) first proposed comparing regulated franchises in order to determine efficiency. Salmon (1987) extended Shleifer's work to look at subnational governments. Besley and Case (1995) showed that "yardstick competition" affects voting behavior, and Bosch and Sole-Olle (2006) further confirmed the results found by Besley and Case. Tax changes that are out of sync with neighboring jurisdictions will impact voting behavior.

The economic literature over the past 50 years has slowly cohered around this hypothesis. Ladd (1998) summarizes the post-World War II empirical tax research literature in an excellent survey article, breaking it down into three distinct periods of differing ideas about taxation: (1) taxes do not change behavior; (2) taxes may or may not change business behavior depending on the circumstances; and (3) taxes definitely change behavior.

Period one, with the exception of Tiebout, included the 1950s, 1960s, and 1970s and is summarized succinctly in three survey articles: Due (1961), Oakland (1978), and Wasylenko (1981). Due's was a polemic against tax giveaways to businesses, and his analytical techniques consisted of basic correlations, interview studies, and the examination of taxes relative to other costs. He found no evidence to support the notion that taxes influence business location. Oakland was skeptical of the assertion that tax differentials at the local level had no influence at all. However, because econometric analysis was relatively unsophisticated at the time, he found no significant articles to support his intuition. Wasylenko's survey of the literature found some of the first evidence indicating that taxes do influence business location decisions. However, the statistical significance was lower than that of other factors such as labor supply and agglomeration economies. Therefore, he dismissed taxes as a secondary factor at most.

Period two was a brief transition during the early- to mid-1980s. This was a time of great ferment in tax policy as Congress passed major tax bills, including the so-called Reagan tax cut in 1981 and a dramatic reform of the federal tax code in 1986. Articles revealing the economic significance of tax policy proliferated and became more sophisticated. For example, Wasylenko and McGuire (1985) extended the traditional business location literature to nonmanufacturing sectors and found, "Higher wages, utility prices, personal income tax rates, and an increase in the overall level of taxation discourage employment growth in several industries." However, Newman and Sullivan (1988) still found a mixed bag in "their observation that significant tax effects [only] emerged when models were carefully specified."

Ladd was writing in 1998, so her "period three" started in the late 1980s and continued up to 1998, when the quantity and quality of articles increased significantly. Articles that fit into period three begin to surface as early as 1985, as Helms (1985) and Bartik (1985) put forth forceful arguments based on empirical research that taxes guide business decisions. Helms concluded that a state's ability to attract, retain, and encourage business activity is significantly affected by its pattern of taxation. Furthermore, tax increases significantly retard economic growth when the revenue is used to fund transfer payments. Bartik concluded that the conventional view that state and local taxes have little effect on business is false.

Papke and Papke (1986) found that tax differentials among locations may be an important business location factor, concluding that consistently high business taxes can represent a hindrance to the location of industry. Interestingly, they use the same type of after-tax model used by Tannenwald (1996), who reaches a different conclusion.

Bartik (1989) provides strong evidence that taxes have a negative impact on business start-ups. He finds specifically that property taxes, because they are paid regardless of profit, have the strongest negative effect on business. Bartik's econometric model also predicts tax elasticities of -0.1 to -0.5 that imply a 10 percent cut in tax rates will increase business activity by 1 to 5 percent. Bartik's findings, as well as those of Mark, McGuire, and Papke (2000), and ample anecdotal evidence of the importance of property taxes, buttress the argument for inclusion of a property index devoted to property-type taxes in the *Index*.

By the early 1990s, the literature had expanded sufficiently for Bartik (1991) to identify 57 studies on which to base his literature survey. Ladd succinctly summarizes Bartik's findings:

> The large number of studies permitted Bartik to take a different approach from the other authors. Instead of dwelling on the results and limitations of each individual study, he looked at them in the aggregate and in groups. Although he acknowledged potential criticisms of individual studies, he convincingly argued that some systematic flaw would have to cut across all studies for the consensus results to be invalid. In striking contrast to previous reviewers, he concluded that taxes have quite large and significant effects on business activity.

Ladd's "period three" surely continues to this day. Agostini and Tulayasathien (2001) examined the effects of corporate income taxes on the location of foreign direct investment in U.S. states. They determined that for "foreign investors, the corporate tax rate is the most relevant tax in their investment decision." Therefore, they found that foreign direct investment was quite sensitive to states' corporate tax rates.

Mark, McGuire, and Papke (2000) found that taxes are a statistically significant factor in private-sector job growth. Specifically, they found that personal property taxes and sales taxes have economically large negative effects on the annual growth of private employment.

Harden and Hoyt (2003) point to Phillips and Gross (1995) as another study contending that taxes impact state economic growth, and they assert that the consensus among recent literature is that state and local taxes negatively affect employment levels. Harden and Hoyt conclude that the corporate income tax has the most significant negative impact on the rate of growth in employment.

Gupta and Hofmann (2003) regressed capital expenditures against a variety of factors, including weights of apportionment formulas, the number of tax incentives, and burden figures. Their model covered 14 years of data and determined that firms tend to locate property in states where they are subject to lower income tax burdens. Furthermore, Gupta and Hofmann suggest that throwback requirements are the most influential on the location of capital investment, followed by apportionment weights and tax rates, and that investment-related incentives have the least impact.

Other economists have found that taxes on specific products can produce behavioral results similar to those that were found in these general studies. For example, Fleenor (1998) looked at the effect of excise tax differentials between states on cross-border shopping and the smuggling of cigarettes. Moody and Warcholik (2004) examined the cross-border effects of beer excises. Their results, supported by the literature in both cases, showed significant cross-border shopping and smuggling between low-tax states and high-tax states.

Fleenor found that shopping areas sprouted in counties of low-tax states that shared a border with a high-tax state, and that approximately 13.3 percent of the cigarettes consumed in the United States during FY 1997 were procured via some type of cross-border activity. Similarly, Moody and Warcholik found that in 2000, 19.9 million cases of beer, on net, moved from low- to high-tax states. This amounted to some $40 million in sales and excise tax revenue lost in high-tax states.

Although the literature has largely congealed around a general consensus that taxes are a substantial factor in the decision-making process for businesses, disputes remain, and some scholars are unconvinced.

Based on a substantial review of the literature on business climates and taxes, Wasylenko (1997) concludes that taxes do not appear to have a substantial effect on economic activity among states. However, his conclusion is premised on there being few significant differences in state tax systems. He concedes that high-tax states will lose economic activity to average or low-tax states "as long as the elasticity is negative and significantly different from zero." Indeed, he approvingly cites a State Policy Reports article that finds that the highest-tax states, such as Minnesota, Wisconsin, and New York, have acknowledged that high taxes may be responsible for the low rates of job creation in those states.[9]

Wasylenko's rejoinder is that policymakers routinely overestimate the degree to which tax policy affects business location decisions and that as a result of this misperception, they respond readily to public pressure for jobs and economic growth by proposing lower taxes. According to Wasylenko, other legislative actions are likely to accomplish more positive economic results because in reality, taxes do not drive economic growth.

However, there is ample evidence that states compete for businesses using their tax systems. A recent example comes from Illinois, where in early 2011 lawmakers passed two major tax increases. The individual income tax rate increased from 3 percent to 5 percent, and the corporate income tax rate rose from 7.3 percent to 9.5 percent.[10] The result was that many businesses threatened to leave the state, including some very high-profile Illinois companies such as Sears and the Chicago Mercantile Exchange. By the end of the year, lawmakers had cut deals with both firms, totaling $235 million over the next decade, to keep them from leaving the state.[11]

A new literature review, Kleven et al. (2019), summarizes recent evidence for tax-driven migration. Meanwhile, Giroud and Rauh (2019) use microdata on multistate firms to estimate the impact of state taxes on business activity, and find that C corporation employment and establishments have short-run corporate tax elasticities of -0.4 to -0.5, while pass-through entities show elasticities of -0.2 to -0.4, meaning that, for each percentage-point increase in the rate, employment decreases by 0.4 to 0.5 percent for C corporations subject to the corporate income tax, and by 0.2 to 0.4 percent within pass-through businesses subject to the individual income tax.

Measuring the Impact of Tax Differentials

Some recent contributions to the literature on state taxation criticize business and tax climate studies in general.[12] Authors of such studies contend that comparative reports like the *State Business Tax Climate Index* do not take into account those factors which directly impact a state's business climate. However, a careful examination of these criticisms reveals that the authors believe taxes are unimportant to businesses and therefore dismiss the studies as merely being designed to advocate low taxes.

9 *State Policy Reports*, Vol. 12, No. 11, Issue 1, p. 9, June 1994.

10 Both rate increases had a temporary component and were allowed to partially expire before legislators overrode a gubernatorial veto to increase rates above where they would have been should they have been allowed to sunset.

11 Benjamin Yount, "Tax increase, impact, dominate Illinois Capitol in 2011," *Illinois Statehouse News*, Dec. 27, 2011.

12 A trend in tax literature throughout the 1990s was the increasing use of indices to measure a state's general business climate. These include the Center for Policy and Legal Studies' *Economic Freedom in America's 50 States: A 1999 Analysis* and the Beacon Hill Institute's *State Competitiveness Report 2001*. Such indexes even exist on the international level, including the Heritage Foundation and *The Wall Street Journal*'s *2004 Index of Economic Freedom*. Plaut and Pluta (1983) examined the use of business climate indices as explanatory variables for business location movements. They found that such general indices do have a significant explanatory power, helping to explain, for example, why businesses have moved from the Northeast and Midwest toward the South and Southwest. In turn, they also found that high taxes have a negative effect on employment growth.

Peter Fisher's *Grading Places: What Do the Business Climate Rankings Really Tell Us?* now published by Good Jobs First, criticizes four indices: The *U.S. Business Policy Index* published by the Small Business and Entrepreneurship Council, Beacon Hill's *Competitiveness Report*, the American Legislative Exchange Council's *Rich States, Poor States*, and this study. The first edition also critiqued the Cato Institute's F*iscal Policy Report Card* and the *Economic Freedom Index* by the Pacific Research Institute. In the report's first edition, published before Fisher summarized his objections: "The underlying problem with the … indexes, of course, is twofold: none of them actually do a very good job of measuring what it is they claim to measure, and they do not, for the most part, set out to measure the right things to begin with" (Fisher 2005). In the second edition, he identified three overarching questions: (1) whether the indices included relevant variables, and only relevant variables; (2) whether these variables measured what they purport to measure; and (3) how the index combines these measures into a single index number (Fisher 2013). Fisher's primary argument is that if the indexes did what they purported to do, then all five would rank the states similarly.

Fisher's conclusion holds little weight because the five indices serve such dissimilar purposes, and each group has a different area of expertise. There is no reason to believe that the Tax Foundation's *Index*, which depends entirely on state tax laws, would rank the states in the same or similar order as an index that includes crime rates, electricity costs, and health care (the Small Business and Entrepreneurship Council's *Small Business Survival Index*), or infant mortality rates and the percentage of adults in the workforce (Beacon Hill's State Competitiveness Report), or charter schools, tort reform, and minimum wage laws (the Pacific Research Institute's *Economic Freedom Index*).

The Tax Foundation's *State Business Tax Climate Index* is an indicator of which states' tax systems are the most hospitable to business and economic growth. The *Index* does not purport to measure economic opportunity or freedom, or even the broad business climate, but rather the narrower business tax climate, and its variables reflect this focus. We do so not only because the Tax Foundation's expertise is in taxes, but because every component of the *Index* is subject to immediate change by state lawmakers. It is by no means clear what the best course of action is for state lawmakers who want to thwart crime, for example, either in the short or long term, but they can change their tax codes now. Contrary to Fisher's 1970s view that the effects of taxes are "small or non-existent," our study reflects strong evidence that business decisions are significantly impacted by tax considerations.

Although Fisher does not feel tax climates are important to states' economic growth, other authors contend the opposite. Bittlingmayer, Eathington, Hall, and Orazem (2005) find in their analysis of several business climate studies that a state's tax climate does affect its economic growth rate and that several indices are able to predict growth. Specifically, they concluded, "The *State Business Tax Climate Index* explains growth consistently." This finding was confirmed by Anderson (2006) in a study for the Michigan House of Representatives, and more recently by Kolko, Neumark, and Mejia (2013), who, in an analysis of the ability of 10 business climate indices to predict economic growth, concluded that the *State Business Tax Climate Index* yields "positive, sizable, and statistically significant estimates for every specification" they measured, and specifically cited the *Index* as one of two business climate indices (out of 10) with particularly strong and robust evidence of predictive power.

Bittlingmayer et al. also found that relative tax competitiveness matters, especially at the borders, and therefore, indices that place a high premium on tax policies do a better job of explaining growth. They also observed that studies focused on a single topic do better at explaining economic growth at borders. Lastly, the article concludes that the most important elements of the business climate are tax and regulatory burdens on business (Bittlingmayer et al. 2005). These findings support the argument that taxes impact business decisions and economic growth, and they support the validity of the *Index*.

Fisher and Bittlingmayer et al. hold opposing views about the impact of taxes on economic growth. Fisher finds support from Robert Tannenwald, formerly of the Boston Federal Reserve, who argues that taxes are not as important to businesses as public expenditures. Tannenwald compares 22 states by measuring the after-tax rate of return to cash flow of a new facility built by a representative firm in each state. This very different approach attempts to compute the marginal effective tax rate of a hypothetical firm and yields results that make taxes appear trivial.

The taxes paid by businesses should be a concern to everyone because they are ultimately borne by individuals through lower wages, increased prices, and decreased shareholder value. States do not institute tax policy in a vacuum. Every change to a state's tax system makes its business tax climate more or less competitive compared to other states and makes the state more or less attractive to business. Ultimately, anecdotal and empirical evidence, along with the cohesion of recent literature around the conclusion that taxes matter a great deal to business, show that the *Index* is an important and useful tool for policymakers who want to make their states' tax systems welcoming to business.

METHODOLOGY

The Tax Foundation's *State Business Tax Climate Index* is a hierarchical structure built from five components:

- **Individual Income Tax**
- **Sales Tax**
- **Corporate Income Tax**
- **Property Tax**
- **Unemployment Insurance Tax**

Using the economic literature as our guide, we designed these five components to score each state's business tax climate on a scale of 0 (worst) to 10 (best). Each component is devoted to a major area of state taxation and includes numerous variables. Overall, there are 125 variables measured in this report.

The five components are not weighted equally, as they are in some indices. Rather, each component is weighted based on the variability of the 50 states' scores from the mean. The standard deviation of each component is calculated and a weight for each component is created from that measure. The result is a heavier weighting of those components with greater variability. The weighting of each of the five major components is:

30.6% — Individual Income Tax
23.5% — Sales Tax
21.1% — Corporate Tax
15.0% — Property Tax
9.8% — Unemployment Insurance Tax

This improves the explanatory power of the *State Business Tax Climate Index* as a whole because components with higher standard deviations are those areas of tax law where some states have significant competitive advantages. Businesses that are comparing states for new or expanded locations must give greater emphasis to tax climates when the differences are large. On the other hand, components in which the 50 state scores are clustered together, closely distributed around the mean, are those areas of tax law where businesses are more likely to de-emphasize tax factors in their location decisions. For example, Delaware is known to have a significant advantage in sales tax competition, because its tax rate of zero attracts businesses and shoppers from all over the Mid-Atlantic region. That advantage and its drawing power increase every time another state raises its sales tax.

In contrast with this variability in state sales tax rates, unemployment insurance tax systems are similar around the nation, so a small change in one state's law could change its component ranking dramatically.

Within each component are two equally weighted subindices devoted to measuring the impact of the tax rates and the tax bases. Each subindex is composed of one or more variables. There are two types of variables: scalar variables and dummy variables. A scalar variable is one that can have any value between 0 and 10. If a subindex is composed only of scalar variables, then they are weighted equally. A dummy variable is one that has only a value of 0 or 1. For example, a state either indexes its brackets for inflation or does not. Mixing scalar and dummy variables within a subindex is problematic because the extreme valuation of a dummy can overly influence the results of the subindex. To counter this effect, the *Index* generally weights scalar variables at 80 percent and dummy variables at 20 percent.

Relative versus Absolute Indexing

The *State Business Tax Climate Index* is designed as a relative index rather than an absolute or ideal index. In other words, each variable is ranked relative to the variable's range in other states. The relative scoring scale is from 0 to 10, with zero meaning not "worst possible" but rather worst among the 50 states.

Many states' tax rates are so close to each other that an absolute index would not provide enough information about the differences among the states' tax systems, especially for pragmatic business owners who want to know which states have the best tax system in each region.

Comparing States without a Tax. One problem associated with a relative scale is that it is mathematically impossible to compare states with a given tax to states that do not have the tax. As a zero rate is the lowest possible rate and the most neutral base, since it creates the most favorable tax climate for economic growth, those states with a zero rate on individual income, corporate income, or sales gain an immense competitive advantage. Therefore, states without a given tax generally receive a 10, and the *Index* measures all the other states against each other.

Three notable exceptions to this rule exist. The first is in Washington, Tennessee, and Texas, which do not have taxes on wage income but do apply their gross receipts taxes to S corporations. (Washington and Texas also apply these to limited liability corporations.) Because these entities are generally taxed through the individual code, these three states do not score perfectly in the individual income tax component. The second exception is found in Nevada, where a payroll tax (for purposes other than unemployment insurance) is also included in the individual income tax component. The final exception is in zero sales tax states–Alaska, Montana, New Hampshire, Oregon, and Delaware–which do not have general sales taxes but still do not score a perfect 10 in that component section because of excise taxes on gasoline, beer, spirits, and cigarettes, which are included in that section. Alaska, moreover, forgoes a state sales tax, but does permit local option sales taxes.

Normalizing Final Scores. Another problem with using a relative scale within the components is that the average scores across the five components vary. This alters the value of not having a given tax across major indices. For example, the unadjusted average score of the corporate income tax component is 6.70 while the average score of the sales tax component is 5.40.

In order to solve this problem, scores on the five major components are "normalized," which brings the average score for all of them to 5.00, excluding states that do not have the given tax. This is accomplished by multiplying each state's score by a constant value.

Once the scores are normalized, it is possible to compare states across indices. For example, because of normalization, it is possible to say that Connecticut's score of 5.10 on corporate income taxes is better than its score of 4.80 on the sales tax.

Time Frame Measured by the *Index* (Snapshot Date)

Starting with the 2006 edition, the *Index* has measured each state's business tax climate as it stands at the beginning of the standard state fiscal year, July 1. Therefore, this edition is the 2023 *Index* and represents the tax climate of each state as of July 1, 2022, the first day of fiscal year 2023 for most states.

District of Columbia

The District of Columbia (D.C.) is only included as an exhibit and its scores and "phantom ranks" offered do not affect the scores or ranks of other states.

Past Rankings and Scores

This report includes 2014-2022 *Index* rankings that can be used for comparison with the 2023 rankings and scores. These can differ from previously published *Index* rankings and scores due to the enactment of retroactive statutes, backcasting of the above methodological changes, and corrections to variables brought to our attention since the last report was published. The scores and rankings in this report are definitive.

CORPORATE TAX

This component measures the impact of each state's principal tax on business activities and accounts for 21.1 percent of each state's total score. It is well established that the extent of business taxation can affect a business's level of economic activity within a state. For example, Newman (1982) found that differentials in state corporate income taxes were a major factor influencing the movement of industry to Southern states. Two decades later, with global investment greatly expanded, Agostini and Tulayasathien (2001) determined that a state's corporate tax rate is the most relevant tax in the investment decisions of foreign investors.

Most states levy standard corporate income taxes on profit (gross receipts minus expenses). Some states, however, problematically impose taxes on the gross receipts of businesses with few or no deductions for expenses. Between 2005 and 2010, for example, Ohio phased in the Commercial Activities Tax (CAT), which has a rate of 0.26 percent. Washington has the Business and Occupation (B&O) Tax, which is a multi-rate tax (depending on industry) on the gross receipts of Washington businesses. Delaware has a similar Manufacturers' and Merchants' License Tax, as does Tennessee with its Business Tax, Virginia with its locally-levied Business/Professional/Occupational License (BPOL) tax, and West Virginia with its local Business & Occupation (B&O) tax. Texas also added the Margin Tax, a complicated gross receipts tax, in 2007, Nevada adopted the gross receipts-based multi-rate Commerce Tax in 2015, and Oregon implemented a new modified gross receipts tax in 2020. However, in 2011, Michigan passed a significant corporate tax reform that eliminated the state's modified gross receipts tax and replaced it with a 6 percent corporate income tax, effective January 1, 2012.[13] The previous tax had been in place since 2007, and Michigan's repeal followed others in Kentucky (2006) and New Jersey (2006). Several states contemplated gross receipts taxes in 2017, but none were adopted.

13 See Mark Robyn, "Michigan Implements Positive Corporate Tax Reform," Tax Foundation, Feb. 10, 2012.

TABLE 3.

Corporate Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	23	24	22	14	21	22	23	23	17	5.53	18	5.52	-1	-0.01
Alaska	25	26	26	25	26	25	25	25	27	5.10	28	5.09	-1	-0.01
Arizona	22	22	20	19	14	16	21	22	23	5.31	23	5.29	0	-0.02
Arkansas	36	36	38	38	38	39	33	33	29	4.90	29	4.96	0	0.06
California	29	31	33	32	31	37	27	27	46	4.06	46	4.05	0	-0.01
Colorado	19	13	15	18	18	6	7	9	6	6.03	7	6.00	-1	-0.03
Connecticut	27	29	31	31	30	33	26	26	26	5.10	27	5.09	-1	-0.01
Delaware	50	50	50	50	50	50	50	50	50	2.41	50	2.41	0	0.00
Florida	13	14	16	19	19	11	9	6	7	5.99	10	5.77	-3	-0.22
Georgia	9	10	10	11	10	8	6	7	8	5.92	8	5.90	0	-0.02
Hawaii	5	5	4	6	11	12	17	19	19	5.48	19	5.46	0	-0.02
Idaho	17	21	21	23	23	27	28	28	28	5.02	26	5.10	2	0.08
Illinois	43	44	32	24	35	36	35	35	38	4.48	38	4.47	0	-0.01
Indiana	28	27	23	22	22	19	11	12	11	5.75	11	5.74	0	-0.01
Iowa	48	48	48	48	48	46	48	46	33	4.86	34	4.85	-1	-0.01
Kansas	35	35	37	37	37	31	34	30	21	5.39	21	5.38	0	-0.01
Kentucky	24	25	25	26	24	15	13	15	15	5.62	15	5.60	0	-0.02
Louisiana	16	20	35	39	39	34	36	34	34	4.76	32	4.87	2	0.11
Maine	41	42	41	40	40	32	37	36	35	4.59	35	4.58	0	-0.01
Maryland	14	15	17	21	20	26	31	32	32	4.87	33	4.86	-1	-0.01
Massachusetts	32	34	36	35	34	38	38	37	36	4.56	36	4.55	0	-0.01
Michigan	8	8	8	9	8	13	18	20	20	5.44	20	5.42	0	-0.02
Minnesota	40	40	42	42	41	43	45	43	43	4.15	43	4.13	0	-0.02
Mississippi	10	11	12	12	12	14	10	13	13	5.66	13	5.64	0	-0.02
Missouri	4	4	3	5	5	4	3	3	3	6.79	3	6.77	0	-0.02
Montana	15	16	18	13	13	9	20	21	22	5.35	22	5.34	0	-0.01
Nebraska	34	28	27	27	27	28	30	31	31	4.88	30	4.92	1	0.04
Nevada	1	1	24	33	32	21	24	24	25	5.19	25	5.18	0	-0.01
New Hampshire	47	47	47	47	43	45	42	44	44	4.10	44	4.10	0	0.00
New Jersey	37	37	39	41	44	49	49	48	48	3.51	48	3.50	0	-0.01
New Mexico	33	33	30	29	25	23	22	11	12	5.74	12	5.72	0	-0.02
New York	21	19	11	8	7	18	14	16	24	5.21	24	5.19	0	-0.02
North Carolina	26	23	7	4	3	3	4	4	4	6.17	5	6.15	-1	-0.02
North Dakota	20	18	14	16	16	17	19	8	9	5.91	9	5.90	0	-0.01
Ohio	45	43	46	46	47	42	41	40	39	4.44	39	4.43	0	-0.01
Oklahoma	11	9	9	10	9	20	8	10	10	5.82	4	6.20	6	0.38
Oregon	30	32	34	34	33	29	32	49	49	2.80	49	2.79	0	-0.01
Pennsylvania	42	41	43	43	42	44	44	42	42	4.16	42	4.15	0	-0.01
Rhode Island	38	38	29	30	29	35	40	39	40	4.41	40	4.39	0	-0.02
South Carolina	12	12	13	15	15	5	5	5	5	6.07	6	6.05	-1	-0.02
South Dakota	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	44	45	44	44	45	48	47	45	45	4.08	45	4.07	0	-0.01
Texas	49	49	49	49	49	47	46	47	47	4.00	47	3.98	0	-0.02
Utah	6	6	5	3	4	7	12	14	14	5.63	14	5.63	0	0.00
Vermont	39	39	40	36	36	40	43	41	41	4.33	41	4.31	0	-0.02
Virginia	7	7	6	7	6	10	15	17	16	5.56	17	5.54	-1	-0.02
Washington	46	46	45	45	46	41	39	38	37	4.49	37	4.47	0	-0.02
West Virginia	18	17	19	17	17	24	16	18	18	5.48	16	5.60	2	0.12
Wisconsin	31	30	28	28	28	30	29	29	30	4.89	31	4.88	-1	-0.01
Wyoming	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	37	37	37	26	26	24	27	27	28	5.05	29	5.04	-1	-0.01

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Since gross receipts taxes and corporate income taxes are levied on different bases, we separately compare gross receipts taxes to each other, and corporate income taxes to each other, in the *Index*.

For states with corporate income taxes, the corporate tax rate subindex is calculated by assessing three key areas: the top tax rate, the level of taxable income at which the top rate kicks in, and the number of brackets. States that levy neither a corporate income tax nor a gross receipts tax achieve a perfectly neutral system in regard to business income and thus receive a perfect score.

States that do impose a corporate tax generally will score well if they have a low rate. States with a high rate or a complex and multiple-rate system score poorly.

To calculate the parallel subindex for the corporate tax base, three broad areas are assessed: tax credits, treatment of net operating losses, and an "other" category that includes variables such as conformity to the Internal Revenue Code, protections against double taxation, and the taxation of "throwback" income, among others. States that score well on the corporate tax base subindex generally will have few business tax credits, generous carryback and carryforward provisions, deductions for net operating losses, conformity to the Internal Revenue Code, and provisions that alleviate double taxation.

Corporate Tax Rate

The corporate tax rate subindex is designed to gauge how a state's corporate income tax top marginal rate, bracket structure, and gross receipts rate affect its competitiveness compared to other states, as the extent of taxation can affect a business's level of economic activity within a state (Newman 1982).

A state's corporate tax is levied in addition to the federal corporate income tax of 21 percent, substantially reduced by the Tax Cuts and Jobs Act of 2017 from a graduated-rate tax with a top rate of 35 percent, the highest rate among industrialized nations. Two states levy neither a corporate income tax nor a gross receipts tax: South Dakota and Wyoming. These states automatically score a perfect 10 on this subindex. Therefore, this section ranks the remaining 48 states relative to each other.

Top Tax Rate. New Jersey's 11.5 percent rate (including a temporary and retroactive surcharge from 2020 to 2023) qualifies for the worst ranking among states that levy one, followed by Pennsylvania's 9.99 percent rate. Other states with comparatively high corporate income tax rates are Iowa and Minnesota (both at 9.8 percent), Alaska (9.4 percent), Maine (8.93 percent), and California (8.84 percent). By contrast, North Carolina's rate of 2.5 percent is the lowest nationally, followed by Missouri's and Oklahoma's (both at 4 percent), North Dakota's at 4.31 percent, and Florida's at 4.458 percent. Other states with comparatively low top corporate tax rates are Colorado (4.55 percent), Arizona and Indiana (both at 4.9 percent), Utah (4.95 percent), and Kentucky, Mississippi, and South Carolina, all at 5 percent.

Graduated Rate Structure. Two variables are used to assess the economic drag created by multiple-rate corporate income tax systems: the income level at which the highest tax rate starts to apply and the number of tax brackets. Twenty-nine states and the District of Columbia have single-rate systems, and they score best. Single-rate systems are consistent with the sound tax principles of simplicity and neutrality. In contrast to the individual income tax, there is no meaningful "ability to pay" concept in corporate taxation. Jeffery Kwall, the Kathleen and Bernard Beazley Professor of Law at Loyola University Chicago School of Law, notes that

> graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners. Indeed, low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes.[14]

A single-rate system minimizes the incentive for firms to engage in expensive, counterproductive tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.

The Top Bracket. This variable measures how soon a state's tax system applies its highest corporate income tax rate. The highest score is awarded to a single-rate system that has one bracket that applies to the first dollar of taxable income. Next best is a two-bracket system where the top rate kicks in at a low level of income, since the lower the top rate kicks in, the more the system is like a flat tax. States with multiple brackets spread over a broad income spectrum are given the worst score.

Number of Brackets. An income tax system creates changes in behavior when the taxpayer's income reaches the end of one tax rate bracket and moves into a higher bracket. At such a break point, incentives change, and as a result, numerous rate changes are more economically harmful than a single-rate structure. This variable is intended to measure the disincentive effect the corporate income tax has on rising incomes. States that score the best on this variable are the 29 states–and the District of Columbia–that have a single-rate system. Alaska's 10-bracket system earns the worst score in this category. Other states with multi-bracket systems include Arkansas (five brackets) and Maine and New Jersey (four brackets).

Corporate Tax Base

This subindex measures the economic impact of each state's definition of what should be subject to corporate taxation.

The three criteria used to measure the competitiveness of each state's corporate tax base are given equal weight: the availability of certain credits, deductions, and exemptions; the ability of taxpayers to deduct net operating losses; and a host of smaller tax base issues that combine to make up the other third of the corporate tax base subindex.

14 Jeffrey L. Kwall, "The Repeal of Graduated Corporate Tax Rates," *Tax Notes*, June 27, 2011, 1395.

Under a gross receipts tax, some of these tax base criteria (net operating losses and some corporate income tax base variables) are replaced by the availability of deductions from gross receipts for employee compensation costs and cost of goods sold. States are rewarded for granting these deductions because they diminish the greatest disadvantage of using gross receipts as the base for corporate taxation: the uneven effective tax rates that various industries pay, depending on how many levels of production are hit by the tax.

Net Operating Losses. The corporate income tax is designed to tax only the profits of a corporation. However, a yearly profit snapshot may not fully capture a corporation's true profitability. For example, a corporation in a highly cyclical industry may look very profitable during boom years but lose substantial amounts during bust years. When examined over the entire business cycle, the corporation may actually have an average profit margin.

The deduction for net operating losses (NOL) helps ensure that, over time, the corporate income tax is a tax on average profitability. Without the NOL deduction, corporations in cyclical industries pay much higher taxes than those in stable industries, even assuming identical average profits over time. Simply put, the NOL deduction helps level the playing field among cyclical and noncyclical industries. Under the Tax Cuts and Jobs Act, the federal government allows losses to be carried forward indefinitely, though they may only reduce taxable income by 80 percent in any given year. Because gross receipts taxes inherently preclude the possibility of carrying net operating losses backward or forward, the *Index* treats states with statewide gross receipts taxes as having the equivalent of no NOL carryback or carryforward provisions.

California has temporarily suspended its net operating loss provisions as a revenue-raising measure during the pandemic despite the state posting record surpluses. It is the only state without an active NOL provision and is assigned the worst score across all NOL variables.

Number of Years Allowed for Carryback and Carryforward. This variable measures the number of years allowed on a carryback or carryforward of an NOL deduction. The longer the overall time span, the higher the probability that the corporate income tax is being levied on the corporation's average profitability. Generally, states entered FY 2022 with better treatment of the carryforward (up to a maximum of 20 years) than the carryback (up to a maximum of three years). States score well on the *Index* if they conform to the new federal provisions or provide their own robust system of carryforwards and carrybacks.

Caps on the Amount of Carryback and Carryforward. When companies have a larger NOL than they can deduct in one year, most states permit them to carry deductions of any amount back to previous years' returns or forward to future returns. States that limit those amounts are ranked lower in the *Index*. Two states, Idaho and Montana, limit the number of carrybacks, though they do better than many of their peers in offering any carryback provisions at all. Of states that allow a carryforward of losses, only Illinois, New Hampshire, and Pennsylvania limit carryforwards. Illinois' cap is a recent addition, intended to only apply to tax years 2021 through 2024. As a result, these states score poorly on this variable.

Gross Receipts Tax Deductions. Proponents of gross receipts taxation invariably praise the steadier flow of tax receipts into government coffers in comparison with the fluctuating revenue generated by corporate income taxes, but this stability comes at a great cost. The attractively low statutory rates associated with gross receipts taxes are an illusion. Since gross receipts taxes are levied many times in the production process, the effective tax rate on a product is much higher than the statutory rate would suggest. Effective tax rates under a gross receipts tax vary dramatically by industry or individual business, a stark departure from the principle of tax neutrality. Firms with few steps in their production chain are relatively lightly taxed under a gross receipts tax, and vertically-integrated, high-margin firms prosper, while firms with longer production chains are exposed to a substantially higher tax burden. The pressure of this economic imbalance often leads lawmakers to enact separate rates for each industry, an inevitably unfair and inefficient process.

Two reforms that states can make to mitigate this damage are to permit deductions from gross receipts for employee compensation costs and cost of goods sold, effectively moving toward a regular corporate income tax.

Delaware, Nevada, Ohio, Oregon, Tennessee, and Washington score the worst, because their gross receipts taxes do not offer full deductions for either the cost of goods sold or employee compensation. Texas offers a deduction for either the cost of goods sold or employee compensation but not both. The Virginia BPOL tax, the West Virginia B&O, and the Pennsylvania business privilege tax are not included in this survey, because they are assessed at the local level and not levied uniformly across the state.

Federal Income Used as State Tax Base. States that use federal definitions of income reduce the tax compliance burden on their taxpayers. Two states (Arkansas and Mississippi) do not conform to federal definitions of corporate income and they score poorly.

Allowance of Federal ACRS and MACRS Depreciation. The vast array of federal depreciation schedules is, by itself, a tax complexity nightmare for businesses. The specter of having 50 different schedules would be a disaster from a tax complexity standpoint. This variable measures the degree to which states have adopted the federal Accelerated Cost Recovery System (ACRS) and Modified Accelerated Cost Recovery System (MACRS) depreciation schedules. One state (California) adds complexity by failing to fully conform to the federal system.

Deductibility of Depletion. The deduction for depletion works similarly to depreciation, but it applies to natural resources. As with depreciation, tax complexity would be staggering if all 50 states imposed their own depletion schedules. This variable measures the degree to which states have adopted the federal depletion schedules. Thirteen states are penalized because they do not fully conform to the federal system: Alaska, California, Delaware, Iowa, Louisiana, Maryland, Minnesota, Mississippi, New Hampshire, North Carolina, Oklahoma, Oregon, and Tennessee.

Alternative Minimum Tax. The federal Alternative Minimum Tax (AMT) was created to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard corporate income tax code. Evidence shows that the AMT does not increase efficiency or improve fairness in any meaningful way. It nets little money for the government, imposes compliance costs that in some years are actually larger than collections, and encourages firms to cut back or shift their investments (Chorvat and Knoll, 2002). As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity.

Five states have an AMT on corporations and thus score poorly: California, Iowa, Kentucky, Minnesota, and New Hampshire.

Deductibility of Taxes Paid. This variable measures the extent of double taxation on income used to pay foreign taxes, i.e., paying a tax on money the taxpayer has already mailed to foreign taxing authorities. States can avoid this double taxation by allowing the deduction of taxes paid to foreign jurisdictions. Twenty-three states allow deductions for foreign taxes paid and score well. The remaining states with corporate income taxation do not allow deductions for foreign taxes paid and thus score poorly.

Indexation of the Tax Code. For states that have multiple-bracket corporate income taxes, it is important to index the brackets for inflation. That prevents de facto tax increases on the nominal increase in income due to inflation. Put simply, this "inflation tax" results in higher tax burdens on taxpayers, usually without their knowledge or consent. All 15 states with graduated corporate income taxes fail to index their tax brackets: Alaska, Arkansas, Hawaii, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, New Jersey, New Mexico, New York, North Dakota, Oregon, and Vermont.

Throwback. To reduce the double taxation of corporate income, states use apportionment formulas that seek to determine how much of a company's income a state can properly tax. Generally, states require a company with nexus (that is, sufficient connection to the state to justify the state's power to tax its income) to apportion its income to the state based on some ratio of the company's in-state property, payroll, and sales compared to its total property, payroll, and sales.

Among the 50 states, there is little harmony in apportionment formulas. Many states weight the three factors equally while others weight the sales factor more heavily (a recent trend in state tax policy). Since many businesses make sales into states where they do not have nexus, businesses can end up with "nowhere income," income that is not taxed by any state. To counter this phenomenon, many states have adopted what are called throwback rules because they identify nowhere income and throw it back into a state where it will be taxed, even though it was not earned in that state.

Throwback and throwout rules for sales of tangible property add yet another layer of tax complexity. Since two or more states can theoretically lay claim to "nowhere" income, rules have to be created and enforced to decide who gets to tax it. States with corporate income taxation are almost evenly divided between those with and without throwback rules. Twenty-six states do not have them, while 22 states and the District of Columbia do.

Section 168(k) Expensing. Because corporate income taxes are intended to fall on net income, they should include deductions for business expenses—including investment in machinery and equipment. Historically, however, businesses have been required to depreciate the value of these purchases over time. In recent years, the federal government offered "bonus depreciation" to accelerate the deduction for these investments, and under the Tax Cuts and Jobs Act, investments in machinery and equipment are fully deductible in the first year, a policy known as "full expensing." Nineteen states follow the federal government in offering full expensing, while two offer "bonus depreciation" short of full expensing.

Net Interest Limitation. Federal law now restricts the deduction of business interest, limiting the deduction to 30 percent of modified income, with the ability to carry the remainder forward to future tax years. This change was intended to eliminate the bias in favor of debt financing (over equity financing) in the federal code, but particularly when states adopt this limitation without incorporating its counterbalancing provision, full expensing, the result is higher investment costs. Thirty-three states and the District of Columbia conform to the net interest limitation.

Inclusion of GILTI. Historically, states have largely avoided taxing international income. Following federal tax reform, however, some states have latched onto the federal provision for the taxation of Global Low-Taxed Intangible Income (GILTI), intended as a guardrail for the new federal territorial system of taxation, as a means to broaden their tax bases to include foreign business activity. States that tax GILTI are penalized in the *Index*, while states receive partial credit for moderate taxation of GILTI (for instance, by adopting the Section 250 deduction) and are rewarded for decoupling or almost fully decoupling from GILTI (by, for instance, treating it as largely-deductible foreign dividend income in addition to providing the Section 250 deduction).

Tax Credits

Many states provide tax credits that lower the effective tax rates for certain industries and investments, often for large firms from out of state that are considering a move. Policymakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a bad business tax climate. Economic development and job creation tax credits complicate the tax system, narrow the tax base, drive up tax rates for companies that do not qualify, distort the free market, and often fail to achieve economic growth.[15]

15 For example, see Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70(1), Winter 2004, 27; and William F. Fox and Matthew N. Murray, "Do Economic Effects Justify the Use of Fiscal Incentives?" *Southern Economic Journal* 71(1), July 2004, 78.

A more effective approach is to systematically improve the business tax climate for the long term. Thus, this component rewards those states that do not offer the following tax credits, with states that offer them scoring poorly.

Investment Tax Credits. Investment tax credits typically offer an offset against tax liability if the company invests in new property, plants, equipment, or machinery in the state offering the credit. Sometimes, the new investment will have to be "qualified" and approved by the state's economic development office. Investment tax credits distort the market by rewarding investment in new property as opposed to the renovation of old property.

Job Tax Credits. Job tax credits typically offer an offset against tax liability if the company creates a specified number of jobs over a specified period of time. Sometimes, the new jobs will have to be "qualified" and approved by the state's economic development office, allegedly to prevent firms from claiming that jobs shifted were jobs added. Even if administered efficiently, job tax credits can misfire in a number of ways. They induce businesses whose economic position would be best served by spending more on new equipment or marketing to hire new employees instead. They also favor businesses that are expanding anyway, punishing firms that are already struggling. Thus, states that offer such credits score poorly on the *Index*.

Research and Development (R&D) Tax Credits. Research and development tax credits reduce the amount of tax due by a company that invests in "qualified" research and development activities. The theoretical argument for R&D tax credits is that they encourage the kind of basic research that is not economically justifiable in the short run but that is better for society in the long run. In practice, their negative side effects–greatly complicating the tax system and establishing a government agency as the arbiter of what types of research meet a criterion so difficult to assess–far outweigh the potential benefits. Thus, states that offer such credits score poorly on the *Index*.

INDIVIDUAL INCOME TAX

The individual income tax component, which accounts for 30.6 percent of each state's total *Index* score, is important to business because a significant number of businesses, including sole proprietorships, partnerships, and S corporations, report their income through the individual income tax code.

Taxes can have a significant impact on an individual's decision to become a self-employed entrepreneur. Gentry and Hubbard (2004) found, "While the level of the marginal tax rate has a negative effect on entrepreneurial entry, the progressivity of the tax also discourages entrepreneurship, and significantly so for some groups of households." Using education as a measure of potential for innovation, Gentry and Hubbard found that a progressive tax system "discourages entry into self-employment for people of all educational backgrounds." Moreover, citing Carroll, Holtz-Eakin, Rider, and Rosen (2000),

TABLE 4.

Individual Income Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	25	25	25	25	31	31	29	28	4.90	30	4.89	-2	-0.01
Alaska	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Arizona	22	24	18	19	19	19	17	18	18	5.35	16	5.84	2	0.49
Arkansas	34	36	37	40	40	40	40	42	38	4.32	37	4.48	1	0.16
California	50	50	50	50	50	49	49	50	49	2.06	49	2.06	0	0.00
Colorado	15	14	14	14	14	13	13	13	14	5.90	14	5.89	0	-0.01
Connecticut	42	42	46	47	47	43	45	47	47	3.41	47	3.41	0	0.00
Delaware	43	43	42	44	44	44	44	44	44	3.81	44	3.81	0	0.00
Florida	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Georgia	33	35	35	35	35	37	36	36	35	4.72	35	4.72	0	0.00
Hawaii	47	47	47	38	38	47	47	46	46	3.46	46	3.46	0	0.00
Idaho	20	21	23	24	24	23	25	24	20	5.20	19	5.32	1	0.12
Illinois	10	15	11	11	13	14	14	12	13	5.91	13	5.90	0	-0.01
Indiana	14	13	15	15	15	15	15	14	15	5.85	15	5.84	0	-0.01
Iowa	41	41	41	42	42	42	41	40	40	4.27	40	4.26	0	-0.01
Kansas	16	17	17	17	18	21	22	21	22	5.10	22	5.10	0	0.00
Kentucky	36	38	38	37	37	17	18	17	17	5.54	18	5.54	-1	0.00
Louisiana	32	33	32	32	31	35	35	35	34	4.73	25	5.02	9	0.29
Maine	26	28	34	31	32	25	20	22	23	5.09	23	5.08	0	-0.01
Maryland	44	44	43	46	46	45	43	45	45	3.66	45	3.66	0	0.00
Massachusetts	12	11	12	12	11	11	11	16	11	6.00	11	6.10	0	0.10
Michigan	13	12	13	13	12	12	12	11	12	5.98	12	5.97	0	-0.01
Minnesota	45	45	44	45	45	46	46	43	43	3.90	43	3.89	0	-0.01
Mississippi	21	22	24	23	23	28	28	27	26	4.96	26	4.99	0	0.03
Missouri	31	32	31	33	33	27	23	20	21	5.14	21	5.15	0	0.01
Montana	18	19	20	20	20	22	24	23	24	5.05	24	5.07	0	0.02
Nebraska	38	34	33	34	34	30	30	30	29	4.87	32	4.87	-3	0.00
Nevada	1	1	1	1	1	5	5	5	5	8.51	5	8.50	0	-0.01
New Hampshire	9	9	9	9	9	9	9	9	9	6.36	9	6.35	0	-0.01
New Jersey	48	48	48	48	48	50	50	49	48	2.09	48	2.09	0	0.00
New Mexico	19	20	22	22	22	26	27	26	36	4.54	36	4.54	0	0.00
New York	49	49	49	49	49	48	48	48	50	1.88	50	1.88	0	0.00
North Carolina	37	16	16	16	16	16	16	15	16	5.76	17	5.76	-1	0.00
North Dakota	27	23	21	21	21	18	19	25	25	4.98	27	4.97	-2	-0.01
Ohio	46	46	45	43	43	41	42	41	41	4.23	41	4.23	0	0.00
Oklahoma	29	30	29	28	28	32	32	31	30	4.85	31	4.88	-1	0.03
Oregon	35	37	36	36	36	38	39	38	42	4.00	42	4.00	0	0.00
Pennsylvania	17	18	19	18	17	20	21	19	19	5.22	20	5.18	-1	-0.04
Rhode Island	25	27	27	27	27	24	26	32	31	4.83	33	4.82	-2	-0.01
South Carolina	30	31	30	30	30	34	34	34	33	4.79	28	4.89	5	0.10
South Dakota	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	8	8	8	8	8	8	8	8	6	8.29	6	8.28	0	-0.01
Texas	6	6	6	6	6	6	6	6	7	8.00	7	7.99	0	-0.01
Utah	11	10	10	10	10	10	10	10	10	6.10	10	6.11	0	0.01
Vermont	40	40	40	41	41	36	38	39	39	4.32	39	4.30	0	-0.02
Virginia	28	29	28	29	29	33	33	33	32	4.79	34	4.79	-2	0.00
Washington	6	6	6	6	6	6	6	6	7	8.00	8	6.87	-1	-1.13
West Virginia	24	26	26	26	26	29	29	28	27	4.90	29	4.89	-2	-0.01
Wisconsin	39	39	39	39	39	39	37	37	37	4.38	38	4.35	-1	-0.03
Wyoming	1	1	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	47	47	46	49	49	47	47	48	48	2.87	48	2.62	0	-0.25

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Gentry and Hubbard contend, "Higher tax rates reduce investment, hiring, and small business income growth" (p. 7). Less neutral individual income tax systems, therefore, hurt entrepreneurship and a state's business tax climate.

Another important reason individual income tax rates are critical for businesses is the cost of labor. Labor typically constitutes a major business expense, so anything that hurts the labor pool will also affect business decisions and the economy. Complex, poorly designed tax systems that extract an inordinate amount of tax revenue reduce both the quantity and quality of the labor pool. This is consistent with the findings of Wasylenko and McGuire (1985), who found that individual income taxes affect businesses indirectly by influencing the location decisions of individuals. A progressive, multi-rate income tax exacerbates this problem by increasing the marginal tax rate at higher levels of income, continually reducing the value of work vis-à-vis the value of leisure.

For example, suppose a worker has to choose between one hour of additional work worth $10 and one hour of leisure which to him is worth $9.50. A rational person would choose to work for another hour. But if a 10 percent income tax rate reduces the after-tax value of labor to $9, then a rational person would stop working and take the hour to pursue leisure. Additionally, workers earning higher wages–$30 per hour, for example–who face progressively higher marginal tax rates–20 percent, for instance–are more likely to be discouraged from working additional hours. In this scenario, the worker's after-tax wage is $24 per hour; therefore, those workers who value leisure more than $24 per hour will choose not to work. Since the after-tax wage is $6 lower than the pretax wage in this example, compared to only $1 lower in the previous example, more workers will choose leisure. In the aggregate, the income tax reduces the available labor supply.[16]

The individual income tax rate subindex measures the impact of tax rates on the marginal dollar of individual income using three criteria: the top tax rate, the graduated rate structure, and the standard deductions and exemptions which are treated as a zero percent tax bracket. The rates and brackets used are for a single taxpayer, not a couple filing a joint return.

The individual income tax base subindex takes into account measures enacted to prevent double taxation, whether the code is indexed for inflation, and how the tax code treats married couples compared to singles. States that score well protect married couples from being taxed more severely than if they had filed as two single individuals. They also protect taxpayers from double taxation by recognizing LLCs and S corporations under the individual tax code and indexing their brackets, exemptions, and deductions for inflation.

States that do not impose an individual income tax generally receive a perfect score, and states that do impose an individual income tax will generally score well if they have a flat, low tax rate with few deductions and exemptions. States that score poorly have complex, multiple-rate systems.

16 See Edward C. Prescott, "Why Do Americans Work So Much More than Europeans?" *Federal Reserve Bank of Minneapolis Quarterly Review*, July 2004. See also J. Scott Moody and Scott A. Hodge, "Wealthy Americans and Business Activity," Tax Foundation, Aug. 1, 2004.

The seven states without an individual income tax or non-UI payroll tax are, not surprisingly, the highest scoring states on this component: Alaska, Florida, South Dakota, Tennessee, Texas, Washington, and Wyoming. Nevada, which taxes wage income (but not unearned income) at a low rate under a non-UI payroll tax, also does extremely well in this component of the *Index*. New Hampshire also scores well, because while the state levies a tax on individual income in the form of interest and dividends, it does not tax wages and salaries.[17] Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, North Carolina, Pennsylvania, and Utah score highly because they have a single, low tax rate.

Scoring near the bottom of this component are states that have high tax rates and very progressive bracket structures. They generally fail to index their brackets, exemptions, and deductions for inflation, do not allow for deductions of foreign or other state taxes, penalize married couples filing jointly, and do not recognize LLCs and S corporations.

Individual Income Tax Rate

The rate subindex compares the states that tax individual income after setting aside the five states that do not and therefore receive perfect scores: Alaska, Florida, South Dakota, and Wyoming. Tennessee, Texas, and Washington do not have an individual income tax, but they do tax S corporation income—and Texas and Washington tax LLC income—through their gross receipts taxes and thus do not score perfectly in this component. Nevada has a low-rate payroll tax on wage income. New Hampshire, meanwhile, does not tax wage and salary income but does tax interest and dividend income.

Top Marginal Tax Rate. California has the highest top income tax rate of 13.3 percent. Other states with high top rates include Hawaii (11.0 percent), New York (10.9 percent), New Jersey (10.75 percent), Oregon (9.9 percent), Minnesota (9.85 percent), Vermont (8.75 percent), and Iowa (8.53 percent).

States with the lowest top statutory rates are North Dakota (2.9 percent), Arizona (2.98 percent), Pennsylvania (3.07 percent), Indiana (3.23 percent), Ohio (3.99 percent), Michigan and Louisiana (both at 4.25 percent), Colorado (4.55 percent), and Utah (4.85 percent). Alabama, Kentucky, Mississippi, and New Hampshire all impose a top statutory rate of 5 percent.[18] Illinois and Kansas, which previously boasted rates below 5 percent, both adopted rate increases in recent years. (Although Illinois' statutory rate is 4.95 percent, it also imposes an additional 1.5 percent tax on pass-through businesses, discussed elsewhere, bringing the rate for these entities to 6.45 percent.)

In addition to statewide income tax rates, some states allow local-level income taxes.[19] We represent these as the mean between the rate in the capital city and most populous city. In some cases, states authorizing local-level income taxes still keep the level of income taxation modest overall. For instance, Alabama, Indiana, Michigan, and

17 Tennessee has begun the process of phasing out its tax on interest and dividend income.

18 New Hampshire taxes only interest and dividends. To account for this, the *Index* converts the statutory tax rate into an effective rate as measured against the typical state income tax base that includes wages. Under a typical income tax base with a flat rate and no tax preferences, this is the statutory rate that would be required to raise the same amount of revenue as the current system. Nationally, dividends and interest account for 19.6 percent of income. For New Hampshire, its 5 percent rate was multiplied by 19.6 percent, yielding the equivalent rate of 0.98 percent.

19 See Jared Walczak, "Local Income Taxes in 2019," Tax Foundation, July 30, 2019.

Pennsylvania allow local income add-ons, but are still among the states with the lowest overall rates.

Top Tax Bracket Threshold. This variable assesses the degree to which pass-through businesses are subject to reduced after-tax return on investment as net income rises. States are rewarded for a top rate that kicks in at lower levels of income, because doing so approximates a less distortionary flat-rate system. For example, Alabama has a progressive income tax structure with three income tax rates. However, because Alabama's top rate of 5 percent applies to all taxable income over $3,000, the state's income tax rate structure is nearly flat.

States with flat-rate systems score the best on this variable because their top rate kicks in at the first dollar of income (after accounting for the standard deduction and personal exemption). They are Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, North Carolina, Pennsylvania, and Utah. States with high kick-in levels score the worst. These include New York ($25 million), New Jersey ($1 million of taxable income), California ($1 million), Connecticut ($500,000), and North Dakota ($445,000 of taxable income).

Number of Brackets. The *Index* converts exemptions and standard deductions to a zero bracket before tallying income tax brackets. From an economic perspective, standard deductions and exemptions are equivalent to an additional tax bracket with a zero tax rate.

For example, Kansas has a standard deduction of $3,500 and a personal exemption of $2,250, for a combined value of $5,750. Statutorily, Kansas has a top rate on all taxable income over $30,000 and two lower brackets, one beginning at the first dollar of income and another at $15,000, so it has an average bracket width of $10,000. Because of its deduction and exemption, however, Kansas's top rate actually kicks in at $35,750 of income, and it has three tax brackets below that with an average width of $11,917. The size of allowed standard deductions and exemptions varies considerably.[20]

Pennsylvania scores the best in this variable by having only one tax bracket (that is, a flat tax with no standard deduction). States with only two brackets (that is, flat taxes with a standard deduction) are Colorado, Illinois, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, North Carolina, and Utah. On the other end of the spectrum, Hawaii scores worst with 12 brackets, followed by California with 10 brackets, and Iowa and Missouri with 9 brackets.

Average Width of Brackets. Many states have several narrow tax brackets close together at the low end of the income scale, including a zero bracket created by standard deductions and exemptions. Most taxpayers never notice them, because they pass so quickly through those brackets and pay the top rate on most of their income. On the

20 Some states offer tax credits in lieu of standard deductions or personal exemptions. Rather than reducing a taxpayer's taxable income before the tax rates are applied, tax credits are subtracted from a taxpayer's tax liability. Like deductions and exemptions, the result is a lower final income tax bill. In order to maintain consistency within the component score, tax credits are converted into equivalent income exemptions or deductions.

other hand, some states impose ever-increasing rates throughout the income spectrum, causing individuals and noncorporate businesses to alter their income-earning and tax-planning behavior. This subindex penalizes the latter group of states by measuring the average width of the brackets, rewarding those states where the average width is small, since in these states the top rate is levied on most income, acting more like a flat rate on all income.

Income Recapture. Connecticut and New York apply the rate of the top income tax bracket to previous taxable income after the taxpayer crosses the top bracket threshold, while Arkansas imposes different tax tables depending on the filer's level of income. New York's recapture provision is the most damaging and results in an approximately $22,000 penalty for reaching the top bracket. Income recapture provisions are poor policy, because they result in dramatically high marginal tax rates at the point of their kick-in, and they are nontransparent in that they raise tax burdens substantially without being reflected in the statutory rate.

Individual Income Tax Base

States have different definitions of taxable income, and some create greater impediments to economic activity than others. The base subindex gives a 40 percent weight to the double taxation of taxable income and a 60 percent weight to an accumulation of other base issues, including indexation and marriage penalties.

The states with no individual income tax of any kind achieve perfect neutrality. Tennessee and Texas, however, are docked slightly because they do not recognize LLCs or S corporations, and Nevada's payroll tax keeps the state from achieving a perfect store. New Hampshire only taxes interest and dividend income, while Washington only taxes capital gains income. Of the other 43 states, Arizona, Idaho, Illinois, Maine, Michigan, Missouri, Montana, and Utah have the best scores, avoiding many problems with the definition of taxable income that plague other states. Meanwhile, states where the tax base is found to cause an unnecessary drag on economic activity include New Jersey, Delaware, New York, California, Connecticut, and Ohio.

Marriage Penalty. A marriage penalty exists when a state's standard deduction and tax brackets for married taxpayers filing jointly are not double those for single filers. As a result, two singles (if combined) can have a lower tax bill than a married couple filing jointly with the same income. This is discriminatory and has serious business ramifications. The top-earning 20 percent of taxpayers are dominated (85 percent) by married couples. This same 20 percent also have the highest concentration of business owners of all income groups (Hodge 2003A, Hodge 2003B). Because of these concentrations, marriage penalties have the potential to affect a significant share of pass-through businesses. Twenty-three states and the District of Columbia have marriage penalties built into their income tax brackets.

Some states attempt to get around the marriage penalty problem by allowing married couples to file as if they were singles or by offering an offsetting tax credit. While helpful in offsetting the dollar cost of the marriage penalty, these solutions come at the expense of added tax complexity. Still, states that allow married couples to file as singles do not receive a marriage penalty score reduction.

Double Taxation of Capital Income. Since most states with an individual income tax system mimic the federal income tax code, they also possess its greatest flaw: the double taxation of capital income. Double taxation is brought about by the interaction between the corporate income tax and the individual income tax. The ultimate source of most capital income–interest, dividends, and capital gains–is corporate profits. The corporate income tax reduces the level of profits that can eventually be used to generate interest or dividend payments or capital gains.[21] This capital income must then be declared by the receiving individual and taxed. The result is the double taxation of this capital income—first at the corporate level and again on the individual level.

All states that tax wage income score poorly by this criterion. New Hampshire, which taxes individuals on interest and dividends, scores somewhat better because it does not tax capital gains. Washington scores even better on this metric because it taxes certain capital gains income but does not have a corporate income tax, nor does it tax wage and salary income. Nevada's payroll tax does not apply to capital income, and thus scores perfectly on this measure, along with states that forgo all income taxation.

Federal Income Used as State Tax Base. Despite the shortcomings of the federal government's definition of income, states that use it reduce the tax compliance burden on taxpayers. Five states score poorly because they do not conform to federal definitions of individual income: Alabama, Arkansas, Mississippi, New Jersey, and Pennsylvania.

Alternative Minimum Tax (AMT)

At the federal level, the Alternative Minimum Tax (AMT) was created in 1969 to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard individual income tax code. AMTs are an inefficient way to prevent tax deductions and credits from totally eliminating tax liability. As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. Five states score poorly for imposing an AMT on individuals: California, Colorado, Connecticut, Iowa, and Minnesota.

Credit for Taxes Paid

This variable measures the extent of double taxation on income used to pay foreign and state taxes, i.e., paying the same taxes twice. States can avoid double taxation by allowing a credit for state taxes paid to other jurisdictions.

Recognition of Limited Liability Corporation and S Corporation Status

One important development in the federal tax system was the creation of the limited

21 Equity-related capital gains are not created directly by a corporation. Rather, they are the result of stock appreciations due to corporate activity such as increasing retained earnings, increasing capital investments, or issuing dividends. Stock appreciation becomes taxable realized capital gains when the stock is sold by the holder.

liability corporation (LLC) and the S corporation. LLCs and S corporations provide businesses some of the benefits of incorporation, such as limited liability, without the overhead of becoming a traditional C corporation. The profits of these entities are taxed under the individual income tax code, which avoids the double taxation problems that plague the corporate income tax system. Every state with a full individual income tax recognizes LLCs to at least some degree, and all but Louisiana recognize S corporations in some fashion, but those that require additional state election or make the entity file through the state's gross receipts tax (as in Delaware, Ohio, Texas, and Washington) score poorly in this variable.

Indexation of the Tax Code

Indexing the tax code for inflation is critical in order to prevent de facto tax increases on the nominal increase in income due to inflation. This "inflation tax" results in higher tax burdens on taxpayers, usually without their knowledge or consent. Three areas of the individual income tax are commonly indexed for inflation: the standard deduction, personal exemptions, and tax brackets. Twenty-five states index all three or do not impose an individual income tax; 15 states and the District of Columbia index one or two of the three; and 10 states do not index at all.

SALES TAXES

Sales tax makes up 23.7 percent of each state's *Index* score. The type of sales tax familiar to taxpayers is a tax levied on the purchase price of a good at the point of sale. Due to the inclusion of some business inputs in most states' sales tax bases, the rate and structure of the sales tax is an important consideration for many businesses. The sales tax can also hurt the business tax climate because as the sales tax rate climbs, customers make fewer purchases or seek low-tax alternatives. As a result, business is lost to lower-tax locations, causing lost profits, lost jobs, and lost tax revenue.[22] The effect of differential sales tax rates among states or localities is apparent when a traveler crosses from a high-tax state to a neighboring low-tax state. Typically, a vast expanse of shopping malls springs up along the border in the low-tax jurisdiction.

On the positive side, sales taxes levied on goods and services at the point of sale to the end-user have at least two virtues. First, they are transparent: the tax is never confused with the price of goods by customers. Second, since they are levied at the point of sale, they are less likely to cause economic distortions than taxes levied at some intermediate stage of production (such as a gross receipts tax or sales taxes on business-to-business transactions).

The negative impact of sales taxes is well documented in the economic literature and through anecdotal evidence. For example, Bartik (1989) found that high sales taxes, especially sales taxes levied on equipment, had a negative effect on small business start-ups. Moreover, companies have been known to avoid locating factories or facilities in

22 States have sought to limit this sales tax competition by levying a "use tax" on goods purchased out of state and brought into the state, typically at the same rate as the sales tax. Few consumers comply with use tax obligations.

SALES & EXCISE TAX

TABLE 5.

Sales Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	50	50	50	49	49	50	50	50	50	2.56	50	2.54	0	-0.02
Alaska	5	5	5	5	5	5	5	5	5	8.07	5	8.04	0	-0.03
Arizona	43	43	43	43	43	40	40	40	40	4.06	41	4.06	-1	0.00
Arkansas	44	45	46	44	44	43	45	45	45	3.73	45	3.74	0	0.01
California	46	46	45	45	46	47	47	47	47	3.37	47	3.36	0	-0.01
Colorado	37	37	37	37	37	37	37	36	38	4.26	40	4.22	-2	-0.04
Connecticut	34	34	32	32	29	29	26	25	23	4.80	23	4.80	0	0.00
Delaware	2	2	1	1	1	2	2	2	2	9.01	2	8.98	0	-0.03
Florida	23	23	23	29	30	22	23	23	21	4.94	21	4.93	0	-0.01
Georgia	27	27	34	31	32	30	30	29	29	4.61	31	4.58	-2	-0.03
Hawaii	31	31	27	26	26	32	29	28	28	4.63	27	4.63	1	0.00
Idaho	14	12	15	15	15	12	12	10	10	5.40	10	5.39	0	-0.01
Illinois	35	35	33	27	27	35	34	39	39	4.22	38	4.28	1	0.06
Indiana	21	22	18	9	9	13	20	20	19	5.01	19	5.01	0	0.00
Iowa	18	18	20	20	19	18	15	15	15	5.17	15	5.17	0	0.00
Kansas	24	25	29	28	28	27	38	37	26	4.72	25	4.70	1	-0.02
Kentucky	11	19	14	13	14	19	14	14	14	5.21	14	5.20	0	-0.01
Louisiana	48	47	48	50	50	48	48	48	48	3.04	48	3.03	0	-0.01
Maine	7	8	8	8	8	9	8	8	8	5.64	8	5.83	0	0.19
Maryland	12	16	17	18	18	17	19	18	27	4.64	30	4.58	-3	-0.06
Massachusetts	19	21	19	19	11	11	13	13	13	5.23	13	5.22	0	-0.01
Michigan	10	10	9	10	12	14	11	11	11	5.38	11	5.38	0	0.00
Minnesota	30	33	26	25	25	26	28	27	31	4.60	29	4.59	2	-0.01
Mississippi	38	39	39	39	39	36	33	32	33	4.49	33	4.47	0	-0.02
Missouri	22	24	25	23	24	25	24	24	25	4.78	26	4.70	-1	-0.08
Montana	3	3	3	3	3	3	3	3	3	8.94	3	8.92	0	-0.02
Nebraska	15	13	12	12	21	8	9	9	9	5.50	9	5.52	0	0.02
Nevada	41	41	41	41	42	45	44	44	44	3.81	44	3.81	0	0.00
New Hampshire	1	1	2	2	2	1	1	1	1	9.05	1	9.02	0	-0.03
New Jersey	40	40	40	40	41	42	42	42	43	3.96	42	3.97	1	0.01
New Mexico	42	42	42	42	40	41	41	41	41	4.05	35	4.39	6	0.34
New York	45	44	44	46	45	44	43	43	42	3.96	43	3.90	-1	-0.06
North Carolina	26	17	21	21	20	24	21	21	20	4.97	20	4.95	0	-0.02
North Dakota	33	32	35	35	35	31	27	30	30	4.60	28	4.59	2	-0.01
Ohio	29	29	30	33	31	28	32	34	35	4.39	36	4.38	-1	-0.01
Oklahoma	36	36	36	36	36	39	39	38	37	4.27	39	4.24	-2	-0.03
Oregon	4	4	4	4	4	4	4	4	4	8.83	4	8.82	0	-0.01
Pennsylvania	20	20	22	22	22	21	17	17	17	5.13	16	5.15	1	0.02
Rhode Island	28	28	24	24	23	23	25	26	24	4.79	24	4.79	0	0.00
South Carolina	32	30	31	30	33	34	31	31	32	4.51	32	4.49	0	-0.02
South Dakota	25	26	28	34	34	33	35	33	34	4.43	34	4.42	0	-0.01
Tennessee	47	48	47	47	47	46	46	46	46	3.53	46	3.53	0	0.00
Texas	39	38	38	38	38	38	36	35	36	4.37	37	4.36	-1	-0.01
Utah	17	14	13	17	17	15	22	22	22	4.93	22	4.93	0	0.00
Vermont	16	15	16	16	16	20	16	16	16	5.13	17	5.10	-1	-0.03
Virginia	9	9	10	11	10	10	10	12	12	5.25	12	5.24	0	-0.01
Washington	49	49	49	48	48	49	49	49	49	2.95	49	2.97	0	0.02
West Virginia	13	11	11	14	13	16	18	19	18	5.04	18	5.02	0	-0.02
Wisconsin	8	7	7	7	7	7	7	7	7	6.02	7	6.01	0	-0.01
Wyoming	6	6	6	6	6	6	6	6	6	6.03	6	6.03	0	0.00
District of Columbia	34	34	34	35	35	32	36	34	37	4.33	39	4.28	-2	-0.05

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

certain states because the factory's machinery would be subject to the state's sales tax.[23]

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs.[24] Hawaii, New Mexico, South Dakota, and Washington are examples of states that tax many business inputs. The ideal base for sales taxation is all goods and services at the point of sale to the end-user.

Excise taxes are sales taxes levied on specific goods. Goods subject to excise taxation are typically (but not always) perceived to be luxuries or vices, the latter of which are less sensitive to drops in demand when the tax increases their price. Examples typically include tobacco, liquor, and gasoline. The sales tax component of the *Index* takes into account the excise tax rates each state levies.

The five states without a state sales tax–Alaska,[25] Delaware, Montana, New Hampshire, and Oregon–achieve the best sales tax component scores. Among states with a sales tax, those with low general rates and broad bases, and which avoid tax pyramiding, do best. Wyoming, Wisconsin, Maine, Nebraska, Idaho, Michigan, and Virginia all do well, with well-structured sales taxes and modest excise tax rates.

At the other end of the spectrum, Alabama, Washington, Louisiana, California, and Tennessee fare the worst, imposing high rates and taxing a range of business inputs, such as utilities, services, manufacturing, and leases—and maintaining relatively high excise taxes. Louisiana and Tennessee have the highest combined state and local rates of 9.55 percent. In general, these states levy high sales tax rates that apply to a wide range of business input items.

Sales Tax Rate

The tax rate itself is important, and a state with a high sales tax rate reduces demand for in-state retail sales. Consumers will turn more frequently to cross-border or certain online purchases, leaving less business activity in the state. This subindex measures the highest possible sales tax rate applicable to in-state retail shopping and taxable business-to-business transactions. Four states–Delaware, Montana, New Hampshire, and Oregon–do not have state or local sales taxes and thus are given a rate of zero. Alaska is sometimes counted among states with no sales tax since it does not levy a statewide sales tax. However, Alaska localities are allowed to levy sales taxes and the weighted statewide average of these taxes is 1.76 percent.

23 For example, in early 1993, Intel Corporation was considering California, New Mexico, and four other states as the site of a new billion-dollar factory. California was the only one of the six states that levied its sales tax on machinery and equipment, a tax that would have cost Intel roughly $80 million. As Intel's Bob Perlman explained in testimony before a committee of the California state legislature, "There are two ways California's not going to get the $80 million: with the factory or without it." California would not repeal the tax on machinery and equipment; New Mexico got the plant.

24 Sales taxes, which are ideally levied only on sales to final-users, are a form of consumption tax. Consumption taxes that are levied instead at each stage of production are known as value-added taxes (VAT) and are popular internationally. Theoretically a VAT can avoid the economically damaging tax pyramiding effect. The VAT has never gained wide acceptance in the U.S., and only two states (Michigan and New Hampshire) have even attempted a VAT-like tax.

25 Alaska does authorize local governments to levy their own sales taxes, however, which is reflected in the state's sales tax component score.

The *Index* measures the state and local sales tax rate in each state. A combined rate is computed by adding the general state rate to the weighted average of the county and municipal rates.

State Sales Tax Rate. Of the 45 states (and the District of Columbia) with a statewide sales tax, Colorado's 2.9 percent rate is the lowest. Five states have a 4 percent state-level sales tax: Alabama, Georgia, Hawaii, New York, and Wyoming. At the other end is California with a 7.25 percent state sales tax, including a mandatory statewide local add-on tax. Tied for second-highest are Indiana, Mississippi, Rhode Island, and Tennessee (all at 7 percent). Other states with high statewide rates include Minnesota (6.88 percent) and Nevada (6.85 percent).

Local Option Sales Tax Rates. Thirty-eight states authorize the use of local option sales taxes at the county and/or municipal level, and in some states, the local option sales tax significantly increases the tax rate faced by consumers.[26] Local jurisdictions in Colorado, for example, add an average of 4.87 percent in local sales taxes to the state's 2.9 percent state-level rate, bringing the total average sales tax rate to 7.77 percent. This may be an understatement in some localities with much higher local add-ons, but by weighting each locality's rate, the *Index* computes a statewide average of local rates that is comparable to the average in other states.

Alabama and Louisiana have the highest average local option sales taxes (5.24 and 5.10 percent, respectively), and in both states the average local option sales tax is higher than the state sales tax rate. Other states with high local option sales taxes include Colorado (4.87 percent), New York (4.52 percent), and Oklahoma (4.49 percent).

States with the highest combined state and average local sales tax rates are Louisiana and Tennessee (both at 9.55 percent), Arkansas (9.47 percent), Washington (9.29 percent), and Alabama (9.24 percent). At the low end are Alaska (1.76 percent), Hawaii (4.44 percent), Wyoming (5.36 percent), Wisconsin (5.43 percent), and Maine (5.5 percent).

Remote Seller Protections. With the Supreme Court's elimination of the physical presence requirement for imposing sales tax collection obligations, all states with sales taxes are now requiring remote sellers to collect and remit sales tax. While most states have adopted safe harbors for small sellers and have a single point of administration for all state and local sales taxes, a few diverge from these practices, imposing substantial compliance costs on out-of-state retailers. Alabama, Alaska (which only has local sales taxes), Colorado, and Louisiana lack uniform administration, while Kansas does not offer a safe harbor for small sellers.

26 The average local option sales tax rate is calculated as an average of local statutory rates, weighted by population. See Jared Walczak and Scott Drenkard, "State and Local Sales Tax Rates, Midyear 2016," Tax Foundation, July 5, 2016.

Sales Tax Base

The sales tax base subindex is computed according to five features of each state's sales tax:

- whether the base includes a variety of business-to-business transactions such as machinery, raw materials, office equipment, farm equipment, and business leases;
- whether the base includes goods and services typically purchased by consumers, such as groceries, clothing, and gasoline;
- whether the base includes services, such as legal, financial, accounting, medical, fitness, landscaping, and repair;
- whether the state leans on sales tax holidays, which temporarily exempt select goods from the sales tax; and
- the excise tax rate on products such as gasoline, diesel fuel, tobacco, spirits, and beer.

The top five states on this subindex—New Hampshire, Delaware, Montana, Oregon, and Alaska—are the five states without a general state sales tax. However, none receives a perfect score because each levies gasoline, diesel, tobacco, and beer excise taxes. States like Wyoming, Kansas, Nebraska, Colorado, Idaho, and Missouri achieve high scores on their tax base by avoiding the problems of tax pyramiding and adhering to low excise tax rates, though of these, Colorado receives poor marks for a lack of local base conformity.

States with the worst scores on the base subindex are Hawaii, Alabama, Washington, California, South Dakota, New Jersey, New Mexico, and Maryland. Their tax systems hamper economic growth by including too many business inputs, excluding too many consumer goods and services, and imposing excessive rates of excise taxation.

Sales Tax on Business-to-Business Transactions (Business Inputs). When a business must pay sales taxes on manufacturing equipment and raw materials, then that tax becomes part of the price of whatever the business makes with that equipment and those materials. The business must then collect sales tax on its own products, with the result that a tax is being charged on a price that already contains taxes. This tax pyramiding invariably results in some industries being taxed more heavily than others, which violates the principle of neutrality and causes economic distortions.

These variables are often inputs to other business operations. For example, a manufacturing firm will count the cost of transporting its final goods to retailers as a significant cost of doing business. Most firms, small and large alike, hire accountants, lawyers, and other professional service providers. If these services are taxed, then it is more expensive for every business to operate.

To understand how business-to-business sales taxes can distort the market, suppose a sales tax were levied on the sale of flour to a bakery. The bakery is not the end-user because the flour will be baked into bread and sold to consumers. Economic theory is not clear as to which party will ultimately bear the burden of the tax. The tax could be "passed forward" onto the customer or "passed backward" onto the bakery.[27] Where the tax burden falls depends on how sensitive the demand for bread is to price changes. If customers tend not to change their bread-buying habits when the price rises, then the tax can be fully passed forward onto consumers. However, if the consumer reacts to higher prices by buying less, then the tax will have to be absorbed by the bakery as an added cost of doing business.

The hypothetical sales tax on all flour sales would distort the market, because different businesses that use flour have customers with varying price sensitivity. Suppose the bakery is able to pass the entire tax on flour forward to the consumer but the pizzeria down the street cannot. The owners of the pizzeria would face a higher cost structure and profits would drop. Since profits are the market signal for opportunity, the tax would tilt the market away from pizza-making. Fewer entrepreneurs would enter the pizza business, and existing businesses would hire fewer people. In both cases, the sales tax charged to purchasers of bread and pizza would be partly a tax on a tax because the tax on flour would be built into the price. Economists call this tax pyramiding, and public finance scholars overwhelmingly oppose applying the sales tax to business inputs due to the resulting pyramiding and lack of transparency.

Besley and Rosen (1998) found that for many products, the after-tax price of the good increased by the same amount as the tax itself. That means a sales tax increase was passed along to consumers on a one-for-one basis. For other goods, however, they found that the price of the good rose by twice the amount of the tax, meaning that the tax increase translates into an even larger burden for consumers than is typically thought. Note that these inputs should only be exempt from sales tax if they are truly inputs into the production process. If they are consumed by an end-user, they are properly includable in the state's sales tax base.

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs. Hawaii, New Mexico, South Dakota, and Washington are examples of states that tax many business inputs.

Sales Tax Breadth. An economically neutral sales tax base includes all final retail sales of goods and services purchased by the end-users. In practice, however, states tend to include most goods, but relatively few services, in their sales tax bases, a growing issue in an increasingly service-oriented economy. Professor John Mikesell of Indiana University estimates that, nationwide, sales taxes extend to about 36 percent of all final consumer transactions.[28] Exempting any goods or services narrows the tax base, drives up the sales tax rate on those items still subject to tax, and introduces unnecessary distortions into the market. A well-structured sales tax, however, does not fall upon business inputs. Therefore, states that tax services that are business inputs score poorly on the *Index*, while states are rewarded for expanding their base to include more final retail sales of goods and services.

27 See Timothy J. Besley and Harvey S. Rosen, "Sales Taxes and Prices: An Empirical Analysis," NBER Working Paper No. 6667, July 1998.
28 Jared Walczak, "State Sales Tax Breadth and Reliance, Fiscal Year 2021," Tax Foundation, May 4, 2022, https://taxfoundation.org/state-sales-tax-base-reliance/.

Sales Tax on Gasoline. There is no economic reason to exempt gasoline from the sales tax, as it is a final retail purchase by consumers. However, all but seven states do so. While all states levy an excise tax on gasoline, these funds are often dedicated for transportation purposes, making them a form of user tax distinct from the general sales tax. The five states that fully include gasoline in their sales tax base (Florida, Hawaii, Illinois, Indiana, and Michigan) get a better score. Several other states receive partial credit for applying an ad valorem tax to gasoline sales, but at a different rate than the general sales tax. New York currently applies local sales taxes only.

Sales Tax on Groceries. A well-structured sales tax includes all end-user goods in the tax base, to keep the base broad, rates low, and prevent distortions in the marketplace. Many states exempt groceries to reduce the incidence of the sales tax on low-income residents. Such an exemption, however, also benefits grocers and higher-income residents, and creates additional compliance costs due to the necessity of maintaining complex, ever-changing lists of exempt and nonexempt products. Public assistance programs such as the Women, Infants, and Children (WIC) program or the Supplement Nutrition Assistance Program (SNAP) provide more targeted assistance than excluding groceries from the sales tax base. Thirteen states include or partially include groceries in their sales tax base.

Excise Taxes

Excise taxes are single-product sales taxes. Many of them are intended to reduce consumption of the product bearing the tax. Others, like the gasoline tax, are often used to fund specific projects such as road construction.

Gasoline and Diesel Excise Taxes. Levied per gallon, these are usually justified as a form of user tax paid by those who benefit from road construction and maintenance. Though gas taxes–along with tolls–are one of the best ways to raise revenue for transportation projects (roughly approximating a user fee for infrastructure use), gasoline represents a large input for most businesses, so states that levy higher rates have a less competitive business tax climate. State excise taxes on gasoline range from 70.95 cents in California (although this tax is suspended from June through December 2022) to 15.13 cents per gallon in Alaska. The *Index* relies upon calculated rates from the American Petroleum Institute, capturing states' base excise taxes in addition to other gallonage-based fees and ad valorem taxes placed upon gasoline. General sales tax rates that apply to gasoline are included in this calculated rate, but states which include, or partially include, gasoline in the sales tax base are rewarded in the sales tax breadth measure.

Tobacco, Spirits, and Beer Excise Taxes. These taxes can discourage in-state consumption and encourage consumers to seek lower prices in neighboring jurisdictions (Moody and Warcholik, 2004). This impacts a wide swath of retail outlets, such as convenience stores, that move large volumes of tobacco and beer products. The problem is exacerbated for those retailers located near the border of states with lower excise taxes as consumers move their shopping out of state—referred to as cross-border shopping.

There is also the growing problem of cross-border smuggling of products from states and areas that levy low excise taxes on tobacco into states that levy high excise taxes on tobacco. This both increases criminal activity and reduces taxable sales by legitimate retailers.[29]

States with the highest tobacco taxes per pack of 20 cigarettes are New York and Connecticut (at $4.35 each), Rhode Island ($4.25), Minnesota ($3.70), and Massachusetts ($3.51), while states with the lowest tobacco taxes are Missouri (17 cents), Georgia (37 cents), North Dakota (44 cents), North Carolina (45 cents), and South Carolina and Idaho (57 cents).

States with the highest beer taxes on a per gallon basis are Tennessee ($1.29), Alaska ($1.07), Alabama ($1.05), Georgia ($1.01), and Hawaii ($0.93), while states with the lowest beer taxes are Wyoming (2 cents), Missouri and Wisconsin (6 cents), and Colorado, Oregon, and Pennsylvania (each at 8 cents). States with the highest spirits taxes per gallon are Washington ($37.81), Oregon ($21.95), and Virginia ($19.89).

PROPERTY TAX

The property tax component, which includes taxes on real and personal property, net worth, and the transfer of assets, accounts for 14.4 percent of each state's *Index* score.

When properly structured, property taxes exceed most other taxes in comporting with the benefit principle and can be fairly economically efficient. In the realm of public finance, they are often also prized for their comparative transparency among taxes, though that transparency may contribute to the public's generally low view of property taxes. The Tax Foundation's Survey of Tax Attitudes found that local property taxes are perceived as the second most unfair state or local tax.[30]

Property taxes matter to businesses, and the tax rate on commercial property is often higher than the tax on comparable residential property. Additionally, many localities and states levy taxes on the personal property or equipment owned by a business. They can be on assets ranging from cars to machinery and equipment to office furniture and fixtures, but are separate from real property taxes, which are taxes on land and buildings.

Businesses remitted over $839 billion in state and local taxes in fiscal year 2020, of which $330 billion (39.2 percent) was for property taxes. The property taxes included tax on real, personal, and utility property owned by businesses (Phillips et al. 2021). Since property taxes can be a large burden on business, they can have a significant effect on location decisions.

29 See Scott Drenkard and Joseph Bishop-Henchman, "Cigarette Taxes and Cigarette Smuggling by State, 2014" Tax Foundation, Jan. 17, 2017.

30 See Matt Moon, "How do Americans Feel about Taxes Today?" *Tax Foundation's 2009 Survey of U.S. Attitudes on Taxes, Government Spending and Wealth Distribution*, Tax Foundation, Apr. 8, 2009.

TABLE 6.

Property Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	13	13	21	17	16	19	19	21	20	5.31	18	5.33	2	0.02
Alaska	29	30	19	25	40	23	25	25	26	5.18	26	5.17	0	-0.01
Arizona	11	11	12	11	11	11	11	10	11	5.68	11	5.76	0	0.08
Arkansas	23	24	27	24	24	27	27	28	29	5.12	27	5.17	2	0.05
California	16	16	13	14	14	13	15	14	14	5.44	19	5.33	-5	-0.11
Colorado	39	39	34	33	32	33	33	33	34	4.70	36	4.51	-2	-0.19
Connecticut	50	50	50	50	50	50	50	50	50	2.32	50	2.27	0	-0.05
Delaware	5	5	5	7	7	4	4	4	4	6.31	4	6.28	0	-0.03
Florida	22	23	17	13	12	12	12	12	12	5.58	12	5.55	0	-0.03
Georgia	28	28	25	26	27	30	31	27	27	5.15	28	5.11	-1	-0.04
Hawaii	20	20	16	18	19	22	28	30	31	5.00	32	4.86	-1	-0.14
Idaho	2	2	2	2	2	3	3	3	3	6.47	3	6.45	0	-0.02
Illinois	45	45	47	46	47	45	44	45	45	3.87	44	3.96	1	0.09
Indiana	3	3	3	3	3	2	2	2	1	6.51	2	6.46	-1	-0.05
Iowa	37	37	38	39	37	38	38	38	39	4.35	40	4.30	-1	-0.05
Kansas	26	26	29	30	30	31	18	19	19	5.35	17	5.35	2	0.00
Kentucky	17	17	23	22	20	24	23	24	24	5.20	24	5.23	0	0.03
Louisiana	19	19	18	27	22	28	29	26	25	5.19	23	5.26	2	0.07
Maine	38	38	39	40	39	40	40	40	41	4.24	47	3.72	-6	-0.52
Maryland	41	41	41	41	42	41	41	43	43	4.12	42	4.15	1	0.03
Massachusetts	44	44	45	45	45	46	45	46	46	3.73	46	3.81	0	0.08
Michigan	27	27	28	28	26	26	26	22	23	5.22	25	5.22	-2	0.00
Minnesota	30	31	32	32	31	32	32	32	32	4.93	31	4.91	1	-0.02
Mississippi	34	34	37	37	36	37	37	37	38	4.43	37	4.45	1	0.02
Missouri	12	12	14	10	9	9	9	8	7	5.99	7	6.03	0	0.04
Montana	15	15	22	19	28	20	21	20	22	5.23	21	5.31	1	0.08
Nebraska	36	36	35	38	38	39	39	41	40	4.28	39	4.34	1	0.06
Nevada	7	7	7	6	6	5	6	5	5	6.17	5	6.19	0	0.02
New Hampshire	43	43	44	44	44	47	46	47	47	3.70	43	4.01	4	0.31
New Jersey	48	48	48	47	49	44	47	44	44	3.87	45	3.87	-1	0.00
New Mexico	1	1	1	1	1	1	1	1	2	6.50	1	6.51	1	0.01
New York	47	47	46	48	46	48	48	49	49	2.89	49	2.83	0	-0.06
North Carolina	10	10	26	29	29	14	13	13	13	5.52	13	5.53	0	0.01
North Dakota	4	4	4	4	4	6	7	11	10	5.70	9	5.91	1	0.21
Ohio	8	8	6	5	5	7	5	6	6	6.12	6	6.13	0	0.01
Oklahoma	21	22	24	21	21	29	30	31	30	5.06	30	5.02	0	-0.04
Oregon	18	18	11	16	17	16	20	16	17	5.37	20	5.31	-3	-0.06
Pennsylvania	32	32	30	15	15	17	16	15	15	5.43	16	5.46	-1	0.03
Rhode Island	46	46	43	43	43	42	42	42	42	4.19	41	4.28	1	0.09
South Carolina	35	35	36	36	35	36	35	35	36	4.60	35	4.60	1	0.00
South Dakota	9	9	10	12	13	15	14	23	18	5.36	14	5.53	4	0.17
Tennessee	40	40	40	35	34	35	34	34	33	4.73	33	4.76	0	0.03
Texas	33	33	33	34	33	34	36	36	37	4.47	38	4.35	-1	-0.12
Utah	6	6	8	8	8	8	8	7	8	5.98	8	5.94	0	-0.04
Vermont	49	49	49	49	48	49	49	48	48	3.24	48	3.23	0	-0.01
Virginia	24	25	20	23	23	25	24	29	28	5.14	29	5.11	-1	-0.03
Washington	14	14	15	20	18	18	17	18	21	5.27	22	5.30	-1	0.03
West Virginia	25	21	9	9	10	10	10	9	9	5.77	10	5.80	-1	0.03
Wisconsin	31	29	31	31	25	21	22	17	16	5.40	15	5.47	1	0.07
Wyoming	42	42	42	42	41	43	43	39	35	4.61	34	4.60	1	-0.01
District of Columbia	46	50	40	47	48	48	48	49	49	2.95	49	2.84	0	-0.11

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Mark, McGuire, and Papke (2000) find taxes that vary from one location to another within a region could be uniquely important determinants of intraregional location decisions. They find that higher rates of two business taxes–the sales tax and the personal property tax–are associated with lower employment growth. They estimate that a tax hike on personal property of one percentage point reduces annual employment growth by 2.44 percentage points.

Bartik (1985), finding that property taxes are a significant factor in business location decisions, estimates that a 10 percent increase in business property taxes decreases the number of new plants opening in a state by between 1 and 2 percent. Bartik (1989) backs up his earlier findings by concluding that higher property taxes negatively affect the establishment of small businesses. He elaborates that the particularly strong negative effect of property taxes occurs because they are paid regardless of profits, and many small businesses are not profitable in their first few years, so high property taxes would be more influential than profit-based taxes on the start-up decision.

States which keep statewide property taxes low better position themselves to attract business investment. Localities competing for business can put themselves at a greater competitive advantage by keeping personal property taxes low.

Taxes on capital stock, tangible and intangible property, inventory, real estate transfers, estates, inheritance, and gifts are also included in the property tax component of the *Index*. The states that score the best on property tax are New Mexico, Indiana, Idaho, Delaware, Nevada, and Ohio. These states generally have low rates of property tax, whether measured per capita or as a percentage of income. They also avoid distortionary taxes like estate, inheritance, gift, and other wealth taxes. States that score poorly on the property tax component are Connecticut, New York, Vermont, Maine, Massachusetts, New Jersey, and Illinois. These states generally have high property tax rates and levy several wealth-based taxes.

The property tax portion of the *Index* is composed of two equally weighted subindices devoted to measuring the economic impact of both rates and bases. The rate subindex consists of property tax collections (measured both per capita and as a percentage of personal income) and capital stock taxes. The base portion consists of dummy variables detailing whether each state levies wealth taxes such as inheritance, estate, gift, inventory, intangible property, and other similar taxes.[31]

Property Tax Rate

The property tax rate subindex consists of property tax collections per capita (40 percent of the subindex score), property tax collections as a percent of personal income (40 percent of the subindex score), and capital stock taxes (20 percent of the subindex score). The heavy weighting of tax collections is due to their importance to businesses and individuals and their increasing size and visibility to all taxpayers. Both are included to gain

31 Though not included directly in this *Index* for data availability reasons, tangible personal property taxes can also affect business decisions. For a comprehensive review of these taxes and reform recommendations, see Joyce Errecart, Ed Gerrish, and Scott Drenkard, "States Moving Away from Taxes on Tangible Personal Property," Tax Foundation, Oct. 4, 2012.

a better understanding of how much each state collects in proportion to its population and its income. Tax collections as a percentage of personal income forms an effective rate that gives taxpayers a sense of how much of their income is devoted to property taxes, and the per capita figure lets them know how much in actual dollar terms they pay in property taxes compared to residents of other states.

While these measures are not ideal–having effective tax rates of personal and real property for both businesses and individuals would be preferable–they are the best measures available due to the significant data constraints posed by property tax collections. Since a high percentage of property taxes are levied on the local level, there are countless jurisdictions. The sheer number of different localities makes data collection almost impossible. The few studies that tackle the subject use representative towns or cities instead of the entire state. Thus, the best source for data on property taxes is the Census Bureau, because it can compile the data and reconcile definitional problems.

States that maintain low effective rates and low collections per capita are more likely to promote growth than states with high rates and collections.

Property Tax Collections Per Capita. Property tax collections per capita are calculated by dividing property taxes collected in each state (obtained from the Census Bureau) by population. The states with the highest property tax collections per capita are New Jersey ($3,513), New Hampshire ($3,246), Connecticut ($3,215), New York ($3,180), and Vermont ($2,938). The states that collect the least per capita are Alabama ($620), Arkansas ($788), Oklahoma ($826), Tennessee ($834), and Kentucky ($873).

Effective Property Tax Rate. Property tax collections as a percent of personal income are derived by dividing the Census Bureau’s figure for total property tax collections by personal income in each state. This provides an effective property tax rate. States with the highest effective rates and therefore the worst scores are Maine (5.21 percent), Vermont (4.82 percent), New Jersey (4.80 percent), New Hampshire (4.79 percent), New York (4.36 percent), and Connecticut (4.20 percent). States that score well with low effective tax rates are Alabama (1.37 percent), Tennessee (1.61 percent), Arkansas (1.69 percent), Oklahoma (1.75 percent), Louisiana (1.80 percent), and Delaware (1.86 percent).

Capital Stock Tax Rate. Capital stock taxes (sometimes called franchise taxes) are levied on the wealth of a corporation, usually defined as net worth. They are often levied in addition to corporate income taxes, adding a duplicate layer of taxation and compliance for many corporations. Corporations that find themselves in financial trouble must use their limited cash flow to pay their capital stock tax. In assessing capital stock taxes, the subindex accounts for three variables: the capital stock tax rate; the maximum payment; and whether any capital stock tax is imposed in addition to a corporate income tax, or whether the business is liable for the higher of the two. The capital stock tax subindex is 20 percent of the total rate subindex.

This variable measures the rate of taxation as levied by the 16 states with a capital stock tax. Legislators have come to realize the damaging effects of capital stock taxes, and a handful of states are reducing or repealing them. Kansas completed the phaseout of its tax in 2011. West Virginia and Rhode Island fully phased out their capital stock taxes as of January 1, 2015, and Pennsylvania phased out its capital stock tax in 2016. New York finished a phaseout of the state's capital stock tax as of January 1, 2021, but the legislature decided to temporarily reinstate the tax due to coronavirus-related budget concerns. Similarly, Illinois had plans to begin a phaseout in 2020, completing the process in 2024. After two years, Illinois reversed its phaseout plan and opted instead to freeze the franchise tax exemption at $1,000. Connecticut plans to phase out its tax by January 1, 2024. States with the highest capital stock tax rates include Arkansas (0.30 percent), Louisiana (0.275 percent), Massachusetts (0.26 percent), Connecticut (0.21 percent), Tennessee (0.25 percent), and New York (0.1875 percent).

Maximum Capital Stock Tax Payment. Eight states mitigate the negative economic impact of the capital stock tax by placing a cap on the maximum capital stock tax payment. These states are Alabama, Connecticut, Delaware, Georgia, Illinois, Nebraska, New York, and Oklahoma, and among states with a capital stock tax, they receive the highest score on this variable.

Capital Stock Tax versus Corporate Income Tax. Some states mitigate the negative economic impact of the capital stock tax by allowing corporations to pay the higher of their capital stock tax or their corporate tax. These states (Connecticut, Massachusetts, and New York) are given credit for this provision. States that do not have a capital stock tax get the best scores in this subindex while the states that force companies to pay both score the worst.

Property Tax Base

This subindex is composed of dummy variables listing the different types of property taxes each state levies. Seven taxes are included and each is equally weighted. Delaware, Idaho, Indiana, Ohio, Alaska, New Mexico, North Dakota, Nevada, New Hampshire, New Jersey, North Carolina, and Pennsylvania score the best because they each only levy one of the seven taxes. Connecticut, Maryland, and Kentucky receive the worst scores because they impose many of these taxes.

Business Tangible Property Tax. This variable rewards states which remove, or substantially remove, business tangible personal property from their tax base. Taxes on tangible personal property, meaning property that can be touched or moved (as opposed to real estate), are a source of tax complexity and nonneutrality, incentivizing firms to change their investment decisions and relocate to avoid the tax. Eight states (Delaware, Hawaii, Illinois, Iowa, New Jersey, New York, Ohio, and Pennsylvania) exempt all tangible personal property from taxation, while another four states (Minnesota, New Hampshire, North Dakota, and South Dakota) exempt most such property from taxation except for select industries that are centrally assessed.

Intangible Property Tax. This dummy variable gives low scores to those states that impose taxes on intangible personal property. Intangible personal property includes stocks, bonds, and other intangibles such as trademarks. This tax can be highly detrimental to businesses that hold large amounts of their own or other companies' stock and that have valuable trademarks. Eight states levy this tax in various degrees: Alabama, Iowa, Kentucky, Louisiana, Mississippi, South Dakota, Tennessee, and Texas.[32]

Inventory Tax. Levied on the value of a company's inventory, the inventory tax is especially harmful to large retail stores and other businesses that store large amounts of merchandise. Inventory taxes are highly distortionary, because they force companies to make decisions about production that are not entirely based on economic principles but rather on how to pay the least amount of tax on goods produced. Inventory taxes also create strong incentives for companies to locate inventory in states where they can avoid these harmful taxes. Fourteen states levy some form of inventory tax.

Split Roll Taxation. In some states, different classes of property—like residential, commercial, industrial, and agricultural property—face distinct tax burdens, either because they are taxed at different rates or are exposed to different assessment ratios. When such distinctions exist, the state is said to have a split (rather than unified) property tax roll. The *Index* assesses whether states utilize split roll taxation, which tends to discriminate against business property, and what ratio exists between commercial and residential property taxation.

Property Tax Limitation Regimes. Most states limit the degree to which localities can raise property taxes, but these property tax limitation regimes vary dramatically. Broadly speaking, there are three types of property tax limitations. Assessment limits restrict the rate at which a given property's assessed value can increase each year. (It often, but not always, resets upon sale or change of use, and sometimes resets when substantial improvements are made.) Rate limits, as the name implies, either cap the allowable rate or restrict the amount by which the rate can be raised in a given year. Finally, levy limits impose a restriction on the growth of total collections (excluding those from new construction), implementing or necessitating rate reductions if revenues exceed the allowable growth rate. Most limitation regimes permit voter overrides. The *Index* penalizes states for imposing assessment limitations, which distort property taxation, leading to similar properties facing highly disparate effective rates of taxation and influencing decisions about property utilization. It also rewards states for adopting either a rate or levy limit, or both.

Asset Transfer Taxes (Estate, Inheritance, and Gift Taxes). Four taxes levied on the transfer of assets are part of the property tax base. These taxes, levied in addition to the federal estate tax, all increase the cost and complexity of transferring wealth and hurt a state's business climate. These harmful effects can be particularly acute in the case of small, family-owned businesses if they do not have the liquid assets necessary to

32 Some states, like Kentucky, are often considered not to impose an intangible property tax but continue to levy a low millage on financial deposits.

pay the estate's tax liability.[33] The four taxes are real estate transfer taxes, estate taxes, inheritance taxes, and gift taxes. Thirty-five states and the District of Columbia levy taxes on the transfer of real estate, adding to the cost of purchasing real property and increasing the complexity of real estate transactions. This tax is harmful to businesses that transfer real property often.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) lowered the federal estate tax rate through 2009 and eliminated it entirely in 2010. Prior to 2001, most states levied an estate tax that piggybacked on the federal system, because the federal tax code allowed individuals to take a dollar-for-dollar tax credit for state estate taxes paid. In other words, states essentially received free tax collections from the estate tax, and individuals did not object because their total tax liability was unchanged. EGTRRA eliminated this dollar-for-dollar credit system, replacing it with a tax deduction.

Consequently, over the past decade, some states enacted their own estate tax while others repealed their estate taxes. Some states have provisions reintroducing the estate tax if the federal dollar-for-dollar credit system is revived. This would have happened in 2011, as EGTRRA expired and the federal estate tax returned to pre-2001 levels. However, in late 2010, Congress reenacted the estate tax for 2011 and 2012 but with higher exemptions and a lower rate than pre-2001 law and maintained the deduction for state estate taxes. The tax reform law of 2017 raised the federal exemption still further. Thirty-eight states receive a high score for either (1) remaining coupled to the federal credit and allowing their state estate tax to expire or (2) not enacting their own estate tax, including two which repealed their estate tax this year. Twelve states and the District of Columbia have maintained an estate tax either by linking their tax to the pre-EGTRRA credit or by creating their own stand-alone system. These states score poorly.

Each year, some businesses, especially those that have not spent a sufficient sum on estate tax planning and on large insurance policies, find themselves unable to pay their estate taxes, either federal or state. Usually they are small- to medium-sized family-owned businesses where the death of the owner occasions a surprisingly large tax liability.

Inheritance taxes are similar to estate taxes, but they are levied on the heir of an estate instead of on the estate itself. Therefore, a person could inherit a family-owned company from his or her parents and be forced to downsize it, or sell part or all of it, in order to pay the heir's inheritance tax. Six states have inheritance taxes and are punished in the *Index*, because the inheritance tax causes economic distortions. Maryland has both an estate tax and an inheritance tax, the only state to impose both after New Jersey completed the repeal of its estate tax.

Connecticut is the only state with a gift tax, and it scores poorly. Gift taxes are designed to stop individuals' attempts to avoid the estate tax by giving their estates away before they die. Gift taxes have a negative impact on a state's business tax climate because they also heavily impact individuals who have sole proprietorships, S corporations, and LLCs.

33 For a summary of the effects of the estate tax on business, see Congressional Budget Office, "Effects of the Federal Estate Tax on Farms and Small Businesses," July 2005. For a summary on the estate tax in general, see David Block and Scott Drenkard, "The Estate Tax: Even Worse Than Republicans Say," Tax Foundation, Sept. 4, 2012.

UNEMPLOYMENT INSURANCE TAXES

Unemployment insurance (UI) is a social insurance program jointly operated by the federal and state governments. Taxes are paid by employers into the UI program to finance benefits for workers recently unemployed. Compared to the other major taxes assessed in the *State Business Tax Climate Index*, UI taxes are much less well-known. Every state has one, and all 50 of them are complex, variable-rate systems that impose different rates on different industries and different bases depending upon such factors as the health of the state's UI trust fund.[34]

One of the worst aspects of the UI tax system is that financially troubled businesses, for which layoffs may be a matter of survival, actually pay higher marginal rates as they are forced into higher tax rate schedules. In the academic literature, this has long been called the "shut-down effect" of UI taxes: failing businesses face climbing UI taxes, with the result that they fail sooner.

The unemployment insurance tax component of the *Index* consists of two equally weighted subindices, one that measures each state's rate structure and one that focuses on the tax base. Unemployment insurance taxes comprise 9.8 percent of a state's final *Index* score.

Overall, the states with the least damaging UI taxes are Oklahoma, Florida, Delaware, Louisiana, Mississippi, and Michigan. Comparatively speaking, these states have rate structures with lower minimum and maximum rates and a wage base at the federal level. In addition, they have simpler experience formulas and charging methods, and they have not complicated their systems with benefit add-ons and surtaxes.

Conversely, the states with the worst UI taxes are Massachusetts, Rhode Island, Kentucky, Idaho, and Maryland. These states tend to have rate structures with high minimum and maximum rates and wage bases above the federal level. They also tend to feature more complicated experience formulas and charging methods, and have added benefits and surtaxes to their systems.

Unemployment Insurance Tax Rate

UI tax rates in each state are based on a schedule of rates ranging from a minimum rate to a maximum rate. The rate for any particular business is dependent upon the business's experience rating: businesses with the best experience ratings will pay the lowest possible rate on the schedule while those with the worst ratings pay the highest. The rate is applied to a taxable wage base (a predetermined fraction of an employee's wage) to determine UI tax liability.

34 See generally Joseph Bishop-Henchman, "Unemployment Insurance Taxes: Options for Program Design and Insolvent Trust Funds," Tax Foundation, Oct. 17, 2011.

TABLE 7.

Unemployment Insurance Tax Component of the *State Business Tax Climate Index* (2014–2023)

	Prior Year Ranks								2022		2023		2022-2023 Change	
State	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	25	26	14	11	12	18	15	18	5.16	19	5.15	-1	-0.01
Alaska	26	24	22	29	24	34	45	44	44	4.31	44	4.33	0	0.02
Arizona	2	4	5	11	15	13	6	8	14	5.50	14	5.47	0	-0.03
Arkansas	28	40	43	30	31	33	23	23	20	5.13	20	5.14	0	0.01
California	14	14	13	16	13	17	22	21	24	5.07	24	5.03	0	-0.04
Colorado	38	35	34	42	34	39	42	40	40	4.52	42	4.45	-2	-0.07
Connecticut	21	20	20	21	19	23	21	22	23	5.09	23	5.07	0	-0.02
Delaware	1	3	3	3	3	3	3	3	2	5.96	2	5.99	0	0.03
Florida	4	2	2	2	2	2	2	2	4	5.87	3	5.92	1	0.05
Georgia	39	39	39	35	37	37	38	38	37	4.69	35	4.70	2	0.01
Hawaii	32	28	24	24	26	26	28	25	31	4.88	30	4.90	1	0.02
Idaho	47	46	45	46	45	47	47	47	46	4.05	47	4.04	-1	-0.01
Illinois	41	37	37	38	41	41	39	42	42	4.50	43	4.41	-1	-0.09
Indiana	10	9	15	10	10	11	25	27	26	4.93	27	4.93	-1	0.00
Iowa	33	33	35	34	33	32	34	36	34	4.80	33	4.81	1	0.01
Kansas	7	8	11	12	12	15	14	14	16	5.41	15	5.42	1	0.01
Kentucky	46	45	46	48	47	46	48	48	48	3.87	48	4.01	0	0.14
Louisiana	5	5	4	9	4	4	4	4	6	5.73	6	5.73	0	0.00
Maine	37	42	41	44	43	24	31	32	35	4.79	38	4.60	-3	-0.19
Maryland	31	21	28	26	23	28	32	33	47	4.03	41	4.46	6	0.43
Massachusetts	48	48	47	49	49	50	50	50	50	3.41	50	3.32	0	-0.09
Michigan	44	47	48	47	48	48	17	18	7	5.66	8	5.66	-1	0.00
Minnesota	34	29	29	28	36	25	33	31	28	4.90	34	4.80	-6	-0.10
Mississippi	8	7	8	5	5	5	5	5	5	5.79	5	5.80	0	0.01
Missouri	13	13	12	7	7	8	9	7	3	5.91	4	5.92	-1	0.01
Montana	20	18	18	19	20	21	20	20	19	5.15	18	5.16	1	0.01
Nebraska	12	12	10	8	9	9	11	11	11	5.56	11	5.56	0	0.00
Nevada	43	43	42	43	44	44	46	46	45	4.19	46	4.19	-1	0.00
New Hampshire	45	44	44	41	42	43	44	43	43	4.32	45	4.32	-2	0.00
New Jersey	30	32	32	25	35	31	30	30	33	4.86	32	4.85	1	-0.01
New Mexico	11	10	7	17	16	10	8	9	8	5.64	9	5.65	-1	0.01
New York	24	31	33	32	29	30	37	37	36	4.76	40	4.50	-4	-0.26
North Carolina	9	11	9	6	6	7	10	10	10	5.58	10	5.59	0	0.01
North Dakota	16	16	16	15	14	14	13	13	9	5.63	7	5.68	2	0.05
Ohio	6	6	6	4	8	6	7	6	13	5.54	13	5.52	0	-0.02
Oklahoma	3	1	1	1	1	1	1	1	1	6.05	1	6.07	0	0.02
Oregon	29	30	27	33	30	36	35	35	39	4.62	36	4.69	3	0.07
Pennsylvania	50	50	50	45	50	45	41	39	22	5.09	22	5.08	0	-0.01
Rhode Island	49	49	49	50	46	49	49	49	49	3.76	49	3.77	0	0.01
South Carolina	35	36	31	37	28	27	26	24	29	4.90	29	4.91	0	0.01
South Dakota	40	41	40	40	38	38	43	41	38	4.67	37	4.68	1	0.01
Tennessee	25	26	25	23	22	22	24	26	21	5.09	21	5.10	0	0.01
Texas	15	15	14	13	25	18	12	12	12	5.55	12	5.55	0	0.00
Utah	19	22	19	22	21	16	15	17	17	5.39	16	5.40	1	0.01
Vermont	17	17	17	20	18	20	16	16	15	5.48	17	5.36	-2	-0.12
Virginia	42	38	38	39	40	42	40	45	41	4.52	39	4.52	2	0.00
Washington	18	19	21	18	17	19	19	19	25	5.02	25	5.02	0	0.00
West Virginia	22	23	23	27	27	29	29	28	27	4.93	26	4.95	1	0.02
Wisconsin	27	27	36	36	39	40	36	34	30	4.88	31	4.90	-1	0.02
Wyoming	36	34	30	31	32	35	27	29	32	4.86	28	4.92	4	0.06
District of Columbia	25	27	27	27	29	32	34	36	39	4.66	38	4.64	1	-0.02

Note: A rank of 1 is best, 50 is worst. All scores are for fiscal years. D.C.'s score and rank do not affect other states.
Source: Tax Foundation.

Multiple rates and rate schedules can affect neutrality as states attempt to balance the dual UI objectives of spreading the cost of unemployment to all employers and ensuring high-turnover employers pay more.

Overall, the states with the best score on this rate subindex are Florida, Nebraska, Louisiana, Missouri, South Carolina, Mississippi, and Georgia. Generally, these states have low minimum and maximum tax rates on each schedule and a wage base at or near the federal level. The states with the worst scores are New York, Massachusetts, Washington, Rhode Island, Alaska, and Oregon.

The subindex gives equal weight to two factors: the actual rate schedules in effect in the most recent year, and the statutory rate schedules that can potentially be implemented at any time depending on the state of the economy and the UI fund.

Tax Rates Imposed in the Most Recent Year

Minimum Tax Rate. States with lower minimum rates score better. The minimum rates in effect in the most recent year range from zero percent (in Iowa, Missouri, Nebraska, South Dakota, and Wisconsin) to 2.10 percent (in New York).

Maximum Tax Rate. States with lower maximum rates score better. The maximum rates in effect in the most recent year range from 5.4 percent (in Alaska, Florida, Hawaii, Idaho, Nebraska, Nevada, and Oregon) to 20.93 percent (in Arizona).

Taxable Wage Base. California, Florida, and Tennessee receive the best scores in this variable with a taxable wage base of $7,000—in line with the federal taxable wage base. The state with the highest taxable bases and, thus, the worst score on this variable, is Washington ($62,500).

Potential Rates

Due to the effect of business and seasonal cycles on UI funds, states will sometimes change UI tax rate schedules. When UI trust funds are flush, states will trend toward their lower rate schedules ("most favorable schedules"); however, when UI trust funds are low, states will trend toward their higher rate schedules ("least favorable schedules").

Most Favorable Schedule: Minimum Tax Rate. States receive the best score in this variable with a minimum tax rate of zero, which they implement when unemployment is low and the UI fund is flush. The minimum rate on the most favorable schedule ranges from zero in 22 states to 1.0 percent in Alaska.

Most Favorable Schedule: Maximum Tax Rate. The lowest maximum rate of 5.4 percent is imposed by 22 states and the District of Columbia. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Wisconsin (10.7 percent).

Least Favorable Schedule: Minimum Tax Rate. Thirteen states receive the best score on this variable with a minimum tax rate of zero percent. The state with the highest minimum tax rate and, thus, the worst minimum tax score, is Hawaii (2.4 percent).

Least Favorable Schedule: Maximum Tax Rate. Twelve states receive the best score in this variable with a comparatively low maximum tax rate of 5.4 percent. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Massachusetts (18.55 percent).

Unemployment Insurance Tax Base

The UI base subindex scores states on how they determine which businesses should pay the UI tax and how much, as well as other UI-related taxes for which businesses may also be liable.

The states that receive the best scores on this subindex are Oklahoma, Delaware, Vermont, New Mexico, and North Dakota. In general, these states have relatively simple experience formulas, they exclude more factors from the charging method, and they enforce fewer surtaxes.

States that receive the worst scores are Virginia, Nevada, Idaho, Maine, and Georgia. In general, they have more complicated experience formulas, exclude fewer factors from the charging method, and have complicated their systems with add-ons and surtaxes. The three factors considered in this subindex are experience rating formulas (40 percent of the subindex score), charging methods (40 percent of the subindex score), and a host of smaller factors aggregated into one variable (20 percent of the subindex score).

Experience Rating Formula. A business's experience rating formula determines the rate the firm must pay—whether it will lean toward the minimum rate or maximum rate of the particular rate schedule in effect in the state at that time.

There are four basic experience formulas: contribution, benefit, payroll, and state experience. The first three experience formulas–contribution, benefit, and payroll–are based solely on the business's experience and are therefore nonneutral by design.[35] However, the final variable–state experience–is a positive mitigating factor because it is based on statewide experience. In other words, the state experience is not tied to the experience of any one business; therefore, it is a more neutral factor. This subindex penalizes states that depend on the contribution, benefit, and payroll experience variables while rewarding states with the state experience variable.

Charging Methods and Benefits Excluded from Charging. A business's experience rating will vary depending on which charging method the state government uses. When a former employee applies for unemployment benefits, the benefits paid to the employee must be charged to a previous employer. There are three basic charging methods:

35 Alaska is the only state to use the payroll experience method. This method does not use benefit payments in the formula but instead the variation in an employer's payroll from quarter to quarter. This is a violation of tax neutrality since any decision by the employer or employee that would affect payroll may trigger higher UI tax rates.

- *Charging Most Recent or Principal Employer:* Nine states charge all the benefits to one employer, usually the most recent.

- *Charging Base-Period Employers in Inverse Chronological Order:* Six states charge all base-period employers in inverse chronological order. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them, with the most recent employer being charged the most.

- *Charging in Proportion to Base-Period Wages:* Thirty-four states and the District of Columbia charge in proportion to base-period wages. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them in proportion to the wages they paid.

None of these charging methods could be called neutral, but at the margin, charging the most recent or principal employer is the least neutral because the business faced with the necessity of laying off employees knows it will bear the full benefit charge. The most neutral of the three is the "charging in proportion to base-period wages" since there is a higher probability of sharing the benefit charges with previous employers.

As a result, the states that charge in proportion to base-period wages receive the best score. The states that charge the most recent or principal employer receive the worst score. The states that charge base-period employers in inverse chronological order receive a median score.

Many states also recognize that certain benefit costs should not be charged to employers, especially if the separation is beyond the employer's control. Therefore, this subindex also accounts for six types of exclusions from benefit charges:

- Benefit award reversed
- Reimbursements on combined wage claims
- Voluntary leaving
- Discharge for misconduct
- Refusal of suitable work
- Continues to work for employer on part-time basis

States are rewarded for each of these exclusions because they nudge a UI system toward neutrality. For instance, if benefit charges were levied for employees who voluntarily quit, then industries with high turnover rates, such as retail, would be hit disproportionately harder. States that receive the best scores in this category are Connecticut, Delaware, Louisiana, Missouri, Ohio, and Vermont. On the other hand, the states that receive the worst scores are Virginia, Nevada, Georgia, Idaho, Kentucky, Maine, Illinois, New Hampshire, Rhode Island, and South Carolina. Most states charge the most recent or principal employer and forbid most benefit exclusions.

Solvency Tax. These taxes are levied on employers when a state's unemployment fund falls below some defined level. Twenty-seven states have a solvency tax on the books, though they fall under different names, such as solvency adjustment tax (Alaska), supplemental assessment tax (Delaware), subsidiary tax (New York), and fund balance factor (Virginia).

Taxes for Socialized Costs or Negative Balance Employer. These are levied on employers when the state desires to recover benefit costs above and beyond the UI tax collections based on the normal experience rating process. Nine states have these taxes on the books, though they fall under different names, such as shared cost assessment tax (Alabama) and social cost factor tax (Washington).

Loan and Interest Repayment Surtaxes. Levied on employers when a loan is taken from the federal government or when bonds are sold to pay for benefit costs, these taxes are of two general types. The first is a tax to pay off the federal loan or bond issue. The second is a tax to pay the interest on the federal loan or bond issue. States are not allowed to pay interest costs directly from the state's unemployment trust fund. Twenty-eight states and the District of Columbia have these taxes on the books, though they fall under several names, such as advance interest tax and bond assessment tax (Colorado) and temporary emergency assessment tax (Delaware).

Reserve Taxes. Reserve taxes are levied on employers, to be deposited in a reserve fund separate from the unemployment trust fund. Since the fund is separate, the interest earned on it is often used to create other funds for purposes such as job training and paying the costs of the reserve tax's collection. Four states have these taxes on the books: Idaho and Iowa (reserve tax), Nebraska (state UI tax), and North Carolina (reserve fund tax).

Surtaxes for UI Administration or Non-UI Purposes. Twenty-nine states and the District of Columbia levy surtaxes on employers, usually to fund administration but sometimes for job training or special improvements in technology. They are often deposited in a fund outside of the state's unemployment fund. Some of the names they go by are the state training and employment program (Arkansas), reemployment service fund tax (New York), wage security tax (Oregon), and investment in South Dakota future fee (South Dakota).

Temporary Disability Insurance (TDI). A handful of states–California, Hawaii, New Jersey, and New York–have established a temporary disability insurance (TDI) program that augments the UI program by extending benefits to those unable to work because of sickness or injury. No separate tax funds these programs; the money comes right out of the states' unemployment funds. Because the balance of the funds triggers various taxes, the TDIs are included as a negative factor in the calculation of this subindex.

Voluntary Contributions. Twenty-six states allow businesses to make voluntary contributions to the unemployment trust fund. In most cases, these contributions are rewarded with a lower rate schedule, often saving the business more money in taxes than was paid through the contribution. The *Index* rewards states that allow voluntary contributions because firms are able to pay when they can best afford to instead of when they are struggling. This provision helps to mitigate the nonneutralities of the UI tax.

Time Period to Qualify for Experience Rating. Newly formed businesses, naturally, do not qualify for an experience rating because they have no significant employment history on which to base the rating. Federal rules stipulate that states can levy a “new employer” rate for one to three years, but no less than one year. From a neutrality perspective, however, this new employer rate is nonneutral in almost all cases since the rate is higher than the lowest rate schedule. The longer this rate is in effect, the worse the nonneutrality. As such, the *Index* rewards states with the minimum one year required to earn an experience rating and penalizes states that require the full three years.

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TABLE 8.

State Corporate Income Tax Rates (as of July 1, 2022)

State	Rates	Brackets	Gross Receipts Tax Rate (a)
Alabama	6.5%	> $0	
Alaska	0.0%	> $0	
	2.0%	> $25,000	
	3.0%	> $49,000	
	4.0%	> $74,000	
	5.0%	> $99,000	
	6.0%	> $124,000	
	7.0%	> $148,000	
	8.0%	> $173,000	
	9.0%	> $198,000	
	9.4%	> $222,000	
Arizona	4.9%	> $0	
Arkansas	1.0%	> $0	
	2.0%	> $3,000	
	3.0%	> $6,000	
	5.0%	> $11,000	
	5.9%	> $25,000	
California	8.84%	> $0	
Colorado	4.55%	> $0	
Connecticut (b)	8.25%	> $0	
Delaware	8.7%	> $0	0.0945% - 0.7468% (c)
Florida	5.5%	> $0	
Georgia	5.75%	> $0	
Hawaii	4.4%	> $0	
	5.4%	> $25,000	
	6.4%	> $100,000	
Idaho	6.0%	> $0	
Illinois (d)	9.5%	> $0	
Indiana	4.9%	> $0	
Iowa	5.5%	> $0	
	9.0%	> $100,000	
	9.8%	> $250,000	
Kansas	4.0%	> $0	
	7.0%	> $50,000	
Kentucky	5.0%	> $0	
Louisiana	3.5%	> $0	
	5.5%	> $50,000	
	7.5%	> $150,000	
Maine	3.5%	> $0	
	7.93%	> $350,000	
	8.33%	> $1,050,000	
	8.93%	> $3,500,000	
Maryland	8.25%	> $0	
Massachusetts	8.0%	> $0	
Michigan	6.0%	> $0	
Minnesota	9.8%	> $0	
Mississippi	3.0%	> $0	
	4.0%	> $5,000	
	5.0%	> $10,000	
Missouri	4.0%	> $0	
Montana	6.75%	> $0	
Nebraska	5.58%	> $0	
	7.50%	> $100,000	
Nevada (e)	None		0.051% - 0.331% (c)
New Hampshire	7.6%	> $0	
New Jersey (f, g)	6.5%	> $0	
	7.5%	> $50,000	
	9.0%	> $100,000	
	11.5%	> $1,000,000	
New Mexico	4.8%	> $0	
	5.9%	> $500,000	
New York (f)	6.50%	> $0	
	7.25%	> $5,000,000	

TABLE 8, CONTINUED.

State Corporate Income Tax Rates (as of July 1, 2022)

State	Rates	Brackets	Gross Receipts Tax Rate (a)
North Carolina	2.5%	> $0	
North Dakota	1.41%	> $0	
	3.55%	> $25,000	
	4.31%	> $50,000	
Ohio	(a)		0.26%
Oklahoma	6.0%	> $0	
Oregon	6.6%	> $0	0.57%
	7.6%	> $1,000,000	
Pennsylvania	9.99%	> $0	
Rhode Island	7.0%	> $0	
South Carolina	5.0%	> $0	
South Dakota	None		
Tennessee	6.5%	> $0	0.02%-0.3% (c)
Texas	(a)		0.331% - 0.75% (c)
Utah	4.85%	> $0	
Vermont	6.0%	> $0	
	7.0%	> $10,000	
	8.5%	> $25,000	
Virginia	6.0%	> $0	0.02% - 0.58% (c)
Washington	(a)		0.13% - 3.3% (c)
West Virginia	6.5%	> $0	
Wisconsin	7.9%	> $0	
Wyoming	None		
District of Columbia	8.25%	> $0	

Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax (see Table 12). Some states impose special rates on financial institutions.

(a) While many states collect gross receipts taxes from public utilities and other sectors, and some states label their sales tax as a gross receipts tax, we show only those state gross receipts taxes that broadly tax all business as a percentage of gross receipts: the Delaware Manufacturers & Merchants' License Tax, the Nevada Commerce Tax, the Ohio Commercial Activities Tax, the Tennessee Business Tax, the Texas Margin Tax, the Virginia locally-levied Business/Professional/Occupational License Tax, and the Washington Business & Occupation Tax. Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax, while Delaware, Tennessee, and Virginia have a gross receipts tax in addition to the corporate income tax.

(b) Connecticut's rate includes a 10% surtax that effectively increases the rate from 7.5% to 8.25%. The surtax is required by businesses with at least $100 million annual gross income.

(c) Gross receipts tax rates vary by industry in these states. Texas has only two rates: 0.375% on retail and wholesale and 0.75% on all other industries. Virginia's tax is locally levied and rates vary by business and by jurisdiction. Washington has over 30 different industry classifications and rates, while Nevada has 26.

(d) Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate.

(e) Nevada also levies a payroll tax, the Modified Business Tax, which is reflected in the individual income tax component of the Index.

(f) The rates indicated apply to a corporation's entire net income rather than just income over the threshold.

(g) In New Jersey, a temporary and retroactive surcharge is in effect from 2020 to 2023, bringing the rate to 11.5% for businesses with income over $1 million.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

TABLE 9.

State Corporate Income Tax and Business Tax Bases: Tax Credits and Gross Receipts Tax Deductions (as of July 1, 2022)

	Job Credits	Research and Development Credits	Investment Credits	Gross Receipts Tax Deductions: Compensation Expenses Deductible	Gross Receipts Tax Deductions: Cost of Goods Sold Deductible
Alabama	Yes	No	Yes		
Alaska	No	No	No		
Arizona	Yes	Yes	Yes		
Arkansas	Yes	Yes	Yes		
California	Yes	Yes	No		
Colorado	Yes	Yes	Yes		
Connecticut	No	Yes	Yes		
Delaware	Yes	Yes	Yes	No	No
Florida	Yes	Yes	Yes		
Georgia	Yes	Yes	Yes		
Hawaii	No	Yes	Yes		
Idaho	Yes	Yes	Yes		
Illinois	Yes	Yes	Yes		
Indiana	Yes	Yes	Yes		
Iowa	Yes	Yes	Yes		
Kansas	Yes	Yes	Yes		
Kentucky	Yes	Yes	Yes		
Louisiana	Yes	Yes	Yes		
Maine	No	Yes	Yes		
Maryland	Yes	Yes	Yes		
Massachusetts	Yes	Yes	Yes		
Michigan	No	No	No		
Minnesota	Yes	Yes	Yes		
Mississippi	Yes	No	Yes		
Missouri	Yes	No	Yes		
Montana	Yes	Yes	No		
Nebraska	Yes	Yes	Yes		
Nevada	No	No	No	No	No
New Hampshire	Yes	Yes	Yes		
New Jersey	Yes	Yes	Yes		
New Mexico	Yes	Yes	Yes		
New York	Yes	Yes	Yes		
North Carolina	No	No	No		
North Dakota	No	Yes	Yes		
Ohio	Yes	Yes	Yes	No	No
Oklahoma	Yes	No	Yes		
Oregon	No	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes		
Rhode Island	Yes	Yes	Yes		
South Carolina	Yes	Yes	Yes		
South Dakota	No	No	No		
Tennessee	Yes	No	Yes	No	No
Texas	No	Yes	No	Partial (a)	Partial (a)
Utah	Yes	Yes	Yes		
Vermont	No	Yes	Yes		
Virginia	Yes	Yes	Yes		
Washington	No	No	No	No	No
West Virginia	Yes	Yes	Yes		
Wisconsin	Yes	Yes	Yes		
Wyoming	No	No	No		
District of Columbia	Yes	No	No		

(a) Businesses may deduct either compensation or cost of goods sold but not both.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 10.

State Corporate Income Tax and Business Tax Bases: Net Operating Losses (as of July 1, 2022)

	Carryback (Years)	Carryback Cap	Carryforward (Years)	Carryforward Cap
Alabama	0	$0	15	Unlimited
Alaska	Conforms to federal treatment			
Arizona	0	$0	20	Unlimited
Arkansas	0	$0	8	Unlimited
California	0	0	0	0
Colorado	Conforms to federal treatment			
Connecticut	0	$0	20	Unlimited
Delaware	Conforms to federal treatment			
Florida	Conforms to federal treatment			
Georgia	Conforms to federal treatment			
Hawaii	Conforms to federal treatment			
Idaho	2	$100,000	20	Unlimited
Illinois	0	$0	22	Unlimited
Indiana	0	$0	20	Unlimited
Iowa	0	$0	20	Unlimited
Kansas	Conforms to federal treatment			
Kentucky	Conforms to federal treatment			
Louisiana	0	$0	20	Unlimited
Maine	Conforms to federal treatment			
Maryland	Conforms to federal treatment			
Massachusetts	0	$0	20	Unlimited
Michigan	0	$0	10	Unlimited
Minnesota	0	$0	15	Unlimited
Mississippi	2	Unlimited	20	Unlimited
Missouri	2	Unlimited	20	Unlimited
Montana	3	$500,000	10	Unlimited
Nebraska	0	$0	20	Unlimited
Nevada	n.a.	n.a.	n.a.	n.a.
New Hampshire	0	$0	10	$10,000,000
New Jersey	0	$0	20	Unlimited
New Mexico	Conforms to federal treatment			
New York	3	Unlimited	20	Unlimited
North Carolina	0	$0	15	Unlimited
North Dakota	0	$0	20	Unlimited
Ohio	n.a.	n.a.	n.a.	n.a.
Oklahoma	Conforms to federal treatment			
Oregon	0	$0	15	Unlimited
Pennsylvania	0	$0	20	40% of Liability (a)
Rhode Island	0	$0	5	Unlimited
South Carolina	Conforms to federal treatment			
South Dakota	Conforms to federal treatment			
Tennessee	0	$0	15	Unlimited
Texas	n.a.	n.a.	n.a.	n.a.
Utah	Conforms to federal treatment			
Vermont	0	$0	10	Unlimited
Virginia	Conforms to federal treatment			
Washington	n.a.	n.a.	n.a.	n.a.
West Virginia	Conforms to federal treatment			
Wisconsin	0	$0	20	Unlimited
Wyoming	n.a.	n.a.	n.a.	n.a.
District of Columbia	Conforms to federal treatment			

(a) Pennsylvania allows unlimited carryforwards but caps claims at 40 percent of tax liability in any given year.
Source: Tax Foundation; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 11.

State Corporate Income Tax and Business Tax Bases: Treatment of Capital Investment (as of July 1, 2022)

	Section 168(k) Expensing	Conforms to Section 163(j) Limitation	GILTI Inclusion
Alabama	100%	Yes	Decouples/95% exclusion
Alaska	100%	Yes	Decouples/95% exclusion
Arizona	0%	Yes	Decouples/95% exclusion
Arkansas	0%	No	Decouples/95% exclusion
California	0%	No	Decouples/95% exclusion
Colorado	100%	Yes	Decouples/95% exclusion
Connecticut	0%	No	Decouples/95% exclusion
Delaware	100%	Yes	Mostly Excluded
Florida	0%	Yes	Decouples/95% exclusion
Georgia	0%	No	Decouples/95% exclusion
Hawaii	0%	Yes	Decouples/95% exclusion
Idaho	0%	Yes	Mostly Excluded
Illinois	100%	Yes	Decouples/95% exclusion
Indiana	0%	No	Decouples/95% exclusion
Iowa	100%	No	Decouples/95% exclusion
Kansas	100%	Yes	Decouples/95% exclusion
Kentucky	0%	Yes	Decouples/95% exclusion
Louisiana	100%	Yes	Decouples/95% exclusion
Maine	0%	Yes	Taxes 50% or more of GILTI
Maryland	0%	Yes	Taxes 50% or more of GILTI
Massachusetts	0%	Yes	Decouples/95% exclusion
Michigan	0%	Yes	Decouples/95% exclusion
Minnesota	20%	Yes	Decouples/95% exclusion
Mississippi	0%	No	Decouples/95% exclusion
Missouri	100%	No	Decouples/95% exclusion
Montana	100%	Yes	Mostly Excluded
Nebraska	100%	Yes	Mostly Excluded
Nevada	0%	No	Decouples/95% exclusion
New Hampshire	0%	Yes	Decouples/95% exclusion
New Jersey	0%	Yes	Taxes 50% or more of GILTI
New Mexico	100%	Yes	Decouples/95% exclusion
New York	0%	Yes	Decouples/95% exclusion
North Carolina	15%	Yes	Decouples/95% exclusion
North Dakota	100%	Yes	Mostly Excluded
Ohio	0%	No	Decouples/95% exclusion
Oklahoma	100%	Yes	Decouples/95% exclusion
Oregon	100%	Yes	Mostly Excluded
Pennsylvania	0%	Yes	Decouples/95% exclusion
Rhode Island	0%	Yes	Taxes 50% or more of GILTI
South Carolina	0%	No	Decouples/95% exclusion
South Dakota	100%	No	Decouples/95% exclusion
Tennessee	0%	No	Decouples/95% exclusion
Texas	0%	No	Decouples/95% exclusion
Utah	100%	Yes	Taxes 50% or more of GILTI
Vermont	0%	Yes	Mostly Excluded
Virginia	0%	Yes	Decouples/95% exclusion
Washington	0%	No	Decouples/95% exclusion
West Virginia	100%	Yes	Mostly Excluded
Wisconsin	0%	No	Decouples/95% exclusion
Wyoming	100%	No	Decouples/95% exclusion
District of Columbia	0%	Yes	Taxes 50% or more of GILTI

Note: "Mostly Excluded" means GILTI may apply or that the deduction is less than 95%.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 12.

State Corporate Income Tax and Business Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Allows Federal ACRS or MACRS Depreciation	Allows Federal Depletion	Throwback Rule	Foreign Tax Deductibility	Corporate AMT	Brackets Indexed for Inflation
Alabama	Yes	Yes	Yes	No	Yes	No	Flat CIT
Alaska	Yes	Yes	Partial	Yes	No	Yes	No
Arizona	Yes	Yes	Yes	No	No	No	Flat CIT
Arkansas	No	Yes	Yes	Yes	Yes	No	No
California	Yes	No	Partial	Yes	No	Yes	Flat CIT
Colorado	Yes	Yes	Yes	Yes	No	No	Flat CIT
Connecticut	Yes	Yes	Yes	No	Yes	No	No
Delaware	Yes	Yes	Partial	No	No	No	Flat CIT
Florida	Yes	Yes	Yes	No	Yes	No	Flat CIT
Georgia	Yes	Yes	Yes	No	No	No	Flat CIT
Hawaii	Yes	Yes	Yes	Yes	Yes	No	No
Idaho	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Illinois	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Indiana	Yes	Yes	Yes	No	Yes	No	Flat CIT
Iowa	Yes	Yes	Partial	No	Yes	No	No
Kansas	Yes	Yes	Yes	Yes	No	No	No
Kentucky	Yes	Yes	Yes	No	No	Yes	Flat CIT
Louisiana	Yes	Yes	Partial	Yes	Yes	No	No
Maine	Yes	Yes	Yes	Yes	Yes	No	No
Maryland	Yes	Yes	Partial	No	Yes	No	Flat CIT
Massachusetts	Yes	Yes	Yes	Yes	No	No	Flat CIT
Michigan	Yes	Yes	Yes	No	No	No	Flat CIT
Minnesota	Yes	Yes	Partial	No	No	Yes	Flat CIT
Mississippi	No	Yes	Partial	Yes	No	No	No
Missouri	Yes	Yes	Yes	No	Yes	No	Flat CIT
Montana	Yes	Yes	Yes	Yes	No	No	Flat CIT
Nebraska	Yes	Yes	Yes	No	Yes	No	No
Nevada	Yes	Yes	Yes	No	Yes	No	GRT
New Hampshire	Yes	Yes	Partial	Yes	No	Yes	Flat CIT
New Jersey	Yes	Yes	Yes	No	No	No	No
New Mexico	Yes	Yes	Yes	Yes	Yes	No	No
New York	Yes	Yes	Yes	No	Yes	No	Flat CIT
North Carolina	Yes	Yes	Partial	No	No	No	Flat CIT
North Dakota	Yes	Yes	Yes	Yes	No	No	No
Ohio	Yes	Yes	Yes	No	Yes	No	GRT
Oklahoma	Yes	Yes	Partial	Yes	No	No	Flat CIT
Oregon	Yes	Yes	Partial	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes	No	No	No	Flat CIT
Rhode Island	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
South Carolina	Yes	Yes	Yes	No	No	No	Flat CIT
South Dakota	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	Yes	Yes	Partial	No	Yes	No	Flat CIT
Texas	Partial	Yes	Yes	No	Yes	No	GRT
Utah	Yes	Yes	Yes	Yes	No	No	Flat CIT
Vermont	Yes	Yes	Yes	Yes	Yes	No	No
Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Washington	Yes	Yes	Yes	No	Yes	No	GRT
West Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Wisconsin	Yes	Yes	Yes	Yes	No	No	Flat CIT
Wyoming	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	Yes	Yes	Yes	Yes	Partial	No	Flat CIT

Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 13.

State Individual Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets (a)	Standard Deduction: Single	Personal Exemption: Per Filer (b)	Personal Exemption: Per Dependent	Average Local Income Tax Rates (c)
Alabama	2.0%	>	$0	$2,500	$1,500	$1,000	0.50%
	4.0%	>	$500				
	5.0%	>	$3,000				
Alaska	No Income Tax						None
Arizona	2.55%	>	$0	12950 (j)	n.a.	n.a.	None
	2.98%	>	$27,272				
Arkansas (e, f)	2.0%	>	$0	$2,200	$29 (g)	$29 (g)	None
	4.0%	>	$4,300				
	4.9%	>	$8,500				
California (e)	1.0%	>	$0	$4,803	$129 (g)	$400 (g)	None
	2.0%	>	$9,325				
	4.0%	>	$22,107				
	6.0%	>	$34,892				
	8.0%	>	$48,435				
	9.3%	>	$61,214				
	10.3%	>	$312,686				
	11.3%	>	$375,221				
	12.3%	>	$625,369				
	13.3%	>	$1,000,000				
Colorado	4.5%	>	$0	$12,950	n.a.	n.a.	None
Connecticut (f)	3.0%	>	$0	n.a.	$15,000 (d)	$0	None
	5.0%	>	$10,000				
	5.50%	>	$50,000				
	6.0%	>	$100,000				
	6.50%	>	$200,000				
	6.90%	>	$250,000				
	6.99%	>	$500,000				
Delaware	2.20%	>	$2,000	$3,250	$110 (g)	$110 (g)	0.625%
	3.90%	>	$5,000				
	4.80%	>	$10,000				
	5.20%	>	$20,000				
	5.55%	>	$25,000				
	6.60%	>	$60,000				
Florida	No Income Tax						None
Georgia	1.0%	>	$0	$4,600	$2,700	$3,000	None
	2.0%	>	$750				
	3.0%	>	$2,250				
	4.0%	>	$3,750				
	5.0%	>	$5,250				
	5.75%	>	$7,000				
Hawaii	1.40%	>	$0	$2,200	$1,144 (d)	$1,144	None
	3.20%	>	$2,400				
	5.50%	>	$4,800				
	6.40%	>	$9,600				
	6.80%	>	$14,400				
	7.20%	>	$19,200				
	7.60%	>	$24,000				
	7.90%	>	$36,000				
	8.25%	>	$48,000				
	9.00%	>	$150,000				
	10.00%	>	$175,000				
	11.00%	>	$200,000				
Idaho (e)	1.0%	>	$0	$12,950 (j)	n.a.	n.a.	None
	3.0%	>	$1,588.00				
	4.5%	>	$4,763.00				
	6.0%	>	$7,939.00				
Illinois (h)	4.95%	>	$0	$0	$2,375	$2,375	None
Indiana	3.23%	>	$0	$0	$1,000	$1,000	1.76%

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets (a)	Standard Deduction: Single	Personal Exemption: Per Filer (b)	Personal Exemption: Per Dependent	Average Local Income Tax Rates (c)
Iowa (e)	0.33%	>	$0	$2,210	$40 (g)	$40 (g)	0.4265%
	0.67%	>	$1,743				
	2.25%	>	$3,486				
	4.14%	>	$6,972				
	5.63%	>	$15,687				
	5.96%	>	$26,154				
	6.25%	>	$34,860				
	7.44%	>	$52,290				
	8.53%	>	$78,435				
Kansas	3.10%	>	$0	$3,500	$2,250	$2,250	None
	5.25%	>	$15,000				
	5.70%	>	$30,000				
Kentucky	5.0%	>	$0	$2,770	n.a.	n.a.	2.075%
Louisiana	1.9%	>	$0	n.a.	$4,500 (i)	$1,000	None
	3.5%	>	$12,500				
	4.3%	>	$50,000				
Maine (e)	5.80%	>	$0	$12,950	$4,450	$300 (g)	None
	6.75%	>	$23,000				
	7.15%	>	$54,450				
Maryland	2.0%	>	$0	$2,350	$3,200 (d)	$3,200	3.005%
	3.0%	>	$1,000				
	4.0%	>	$2,000				
	4.75%	>	$3,000				
	5.0%	>	$100,000				
	5.25%	>	$125,000				
	5.50%	>	$150,000				
	5.75%	>	$250,000				
Massachusetts	5.0%	>	$0	n.a.	$4,400	$1,000	None
Michigan	4.25%	>	$0	n.a.	$5,000	$5,000	1.70%
Minnesota (e)	5.35%	>	$0	$12,900 (j)	n.a.	$4,350	None
	6.80%	>	$28,080				
	7.85%	>	$92,230				
	9.85%	>	$171,220				
Mississippi	4.0%	>	$5,000	$2,300	$6,000	$1,500	None
	5.0%	>	$10,000				
Missouri	1.5%	>	$108	$12,950 (j)	n.a.	n.a.	0.50%
	2.0%	>	$1,088				
	2.5%	>	$2,176				
	3.0%	>	$3,264				
	3.5%	>	$4,352				
	4.0%	>	$5,440				
	4.5%	>	$6,528				
	5.0%	>	$7,616				
	5.3%	>	$8,704				
Montana (e)	1.0%	>	$0	$4,830	$2,580	$2,580	None
	2.0%	>	$3,300				
	3.0%	>	$5,800				
	4.0%	>	$8,900				
	5.0%	>	$12,000				
	6.0%	>	$15,400				
	6.75%	>	$19,800				
Nebraska (e)(f)	2.46%	>	$0	$7,350	$142 (d, g)	$142 (d, g)	None
	3.51%	>	$3,340				
	5.01%	>	$19,990				
	6.84%	>	$32,210				
Nevada (k)	No Income Tax						None
New Hampshire (l)	5.0%	>	$0	n.a.	$2,400	$0	None
New Jersey	1.400%	>	$0	n.a.	$1,000	$1,500	0.50%
	1.750%	>	$20,000				
	3.500%	>	$35,000				
	5.525%	>	$40,000				
	6.370%	>	$75,000				
	8.970%	>	$500,000				
	10.750%	>	$1,000,000				

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

				Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)
State	Rates		Brackets (a)	Single	Per Filer (b)	Per Dependent	
New Mexico	1.7%	>	$0	$12,950 (j)	n.a.	$4,000	None
	3.2%	>	$5,500				
	4.7%	>	$11,000				
	4.9%	>	$16,000				
	5.9%		$210,000				
New York (e, f)	4.00%	>	$0	$8,000	$0	$1,000	1.938%
	4.50%	>	$8,500				
	5.25%	>	$11,700				
	5.85%	>	$13,900				
	6.25%	>	$80,650				
	6.85%	>	$215,400				
	9.65%	>	$1,077,550				
	10.30%	>	$5,000,000				
	10.90%		25,000,000				
	10.90%	>	$25,000,000				
North Carolina	4.99%	>	$0	$12,750	n.a.	n.a.	None
North Dakota (e)	1.10%	>	$0	$12,950 (j)	n.a.	n.a.	None
	2.04%	>	$40,525				
	2.27%	>	$98,100				
	2.64%	>	$204,675				
	2.90%	>	$445,000				
Ohio (e)	2.756%	>	$25,000	n.a.	$2,400	$2,400	2.50%
	3.226%	>	$44,250				
	3.688%	>	$88,450				
	3.990%	>	$110,650				
Oklahoma	0.25%	>	$0	$6,350	$1,000	$1,000	None
	0.75%	>	$1,000				
	1.75%	>	$2,500				
	2.75%	>	$3,750				
	3.75%	>	$4,900				
	4.75%	>	$7,200				
Oregon (e, k)	4.75%	>	$0	$2,420	$213 (g)	$213 (g)	2.387%
	6.75%	>	$3,650				
	8.75%	>	$9,200				
	9.90%	>	$125,000				
Pennsylvania	3.07%	>	$0	n.a.	n.a.	n.a.	2.895%
Rhode Island (e)	3.75%	>	$0	$9,300 (d)	n.a.	$4,350 (d)	None
	4.75%	>	$68,200				
	5.99%	>	$155,050				
South Carolina (e)	0.0%	>	$0	$12,950 (j)	n.a.	$4,300	None
	3.0%	>	$3,200				
	6.5%	>	$16,040				
South Dakota	No Income Tax						None
Tennessee	No Income Tax						None
Texas	No Income Tax						None
Utah	4.85%	>	$0	(m)	(m)	(m)	None
Vermont (n)	3.35%	>	$0	$6,350	$4,350	$4,350	None
	6.60%	>	$40,950				
	7.60%	>	$99,200				
	8.75%	>	$206,950				
Virginia	2.0%	>	$0	$4,500	$930	$930	None
	3.0%	>	$3,000				
	5.0%	>	$5,000				
	5.75%	>	$17,000				
Washington (o)	7.0%	>	$250,000				None
West Virginia	3.0%	>	$0	n.a.	$2,000	$2,000	None
	4.0%	>	$10,000				
	4.50%	>	$25,000				
	6.0%	>	$40,000				
	6.50%	>	$60,000				
Wisconsin (e)	3.54%	>	$0	$11,790 (d)	$700	$700	None
	4.65%	>	$12,760				
	5.30%	>	$25,520				
	7.65%	>	$280,950				

TABLE 13, CONTINUED.

State Individual Income Tax Rates (as of July 1, 2022)

State	Rates		Brackets (a)	Standard Deduction Single	Personal Exemption Per Filer (b)	Personal Exemption Per Dependent	Average Local Income Tax Rates (c)
Wyoming	No Income Tax						None
District of Columbia	4.0%	>	$0	$12,950 (j)	n.a.	n.a.	None
	6.0%	>	$10,000				
	6.50%	>	$40,000				
	8.50%	>	$60,000				
	9.25%	>	$250,000				
	9.75%	>	$500,000				
	10.75%	>	$1,000,000				

(a) Brackets are for single taxpayers. Some states double bracket widths for joint filers (AL, AZ, CT, HI, ID, KS, LA, ME, NE, OR). New York doubles all except the top two brackets. Some states increase but do not double brackets for joint filers (CA, GA, MN, NM, NC, ND, OK, RI, VT, WI). Maryland decreases some and increases others. New Jersey adds a 2.45% rate and doubles some bracket widths. Consult the Tax Foundation website for tables for joint filers.
(b) Married joint filers generally receive double the single exemption.
(c) The average local income tax rate is calculated by taking the mean of the income tax rate in the most populous city and the capital city.
(d) Subject to phaseout for higher-income taxpayers.
(e) Bracket levels are adjusted for inflation each year.
(f) Arkansas, Connecticut, Nebraska, and New York have an income "recapture" provision whereby the benefit of lower tax brackets is removed for the top bracket. See the individual income tax section for details.
(g) Tax credit.
(h) Illinois imposes an additional 1.5% tax on pass-through businesses, bringing the combined rate to 6.45%.
(i) The standard deduction and personal exemptions are combined: $4,500 for single and married filing separately; $9,000 married filing jointly.
(j) These states adopt the same standard deductions or (now zeroed-out) personal exemptions as the federal government. In some cases, the link is implicit in the fact that the state tax calculations begin with federal taxable income.
(k) Nevada imposes a payroll tax of 1.45%, which is included in the *Index* as a tax on wage income only. Oregon imposes a payroll tax of 0.1% in addition to its income tax; this is also reflected in *Index* calculations.
(l) Tax applies to interest and dividend income only.
(m) Utah's standard deduction and personal exemption are combined into a single credit equal to 6% of the taxpayer's federal standard deduction (or itemized deductions) plus three-fourths of the taxpayer's federal exemptions. This credit is phased out for higher-income taxpayers.
(n) Bracket levels are adjusted for inflation each year; 2022 inflation adjustments were not available as of publication, so inflation-adjusted amounts for tax year 2021 are shown.
(o) Tax applies to capital gains income only.

Source: Tax Foundation; state tax forms and instructions; state statutes.

TABLE 14.

State Individual Income Tax Bases: Marriage Penalty, Capital Income, and Indexation (as of July 1, 2022)

			Capital Income Taxed			Indexed for Inflation		
	Marriage Penalty	Convenience Rule	Interest	Dividends	Capital Gains	Tax Brackets	Standard Deduction	Personal Exemption
Alabama	No	No	Yes	Yes	Yes	No	No	No
Alaska	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Arkansas	Yes	No	Yes	Yes	Yes	Yes	No	Yes
California	Yes	No	Yes	Yes	Yes	Partial	Yes	Yes
Colorado	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Connecticut	No	Partial	Yes	Yes	Yes	No	Yes	No
Delaware	Yes	Yes	Yes	Yes	Yes	No	No	No
Florida	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia	Yes	No	Yes	Yes	Yes	No	No	No
Hawaii	No	No	Yes	Yes	Yes	No	No	No
Idaho	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Illinois	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Indiana	No	No	Yes	Yes	Yes	Yes	Yes	No
Iowa	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Kansas	No	No	Yes	Yes	Yes	No	No	No
Kentucky	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Louisiana	No	No	Yes	Yes	Yes	No	No	No
Maine	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Maryland	Yes	No	Yes	Yes	Yes	No	Yes	No
Massachusetts	No	No	Yes	Yes	Yes	Yes	Yes	No
Michigan	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Minnesota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Mississippi	Yes	No	Yes	Yes	Yes	No	No	No
Missouri	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Montana	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Nebraska	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nevada	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	No	No	Yes	Yes	No	Yes	Yes	No
New Jersey	Yes	No	Yes	Yes	Yes	No	Yes	No
New Mexico	Yes	No	Yes	Yes	Yes	No	Yes	Yes
New York	Yes	Yes	Yes	Yes	Yes	No	No	No
North Carolina	No	No	Yes	Yes	Yes	Yes	No	Yes
North Dakota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Ohio	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Oklahoma	Yes	No	Yes	Yes	Yes	No	No	No
Oregon	No	No	Yes	Yes	Yes	Partial	Yes	Yes
Pennsylvania	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rhode Island	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Carolina	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Dakota	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Texas	n.a.	No	n.a.	n.a.	n.a.	Yes	Yes	Yes
Utah	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Vermont	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Virginia	Yes	No	Yes	Yes	Yes	No	No	No
Washington	Yes	No	n.a.	n.a.	Yes	No	n.a.	n.a.
West Virginia	Yes	No	Yes	Yes	Yes	No	Yes	No
Wisconsin	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Wyoming	n.a.	No	n.a.	n.a.	n.a.	Yes	Yes	Yes
District of Columbia	Yes	No	Yes	Yes	Yes	No	Yes	Yes

Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 15.

State Individual Income Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Credits for Taxes Paid to Other States	AMT Levied	Recognition of LLC Status	Recognition of S-Corp Status	Section 179 Expensing Limit
Alabama	No	Yes	No	Yes	Yes	$1,000,000
Alaska	Yes	Yes	No	Yes	Yes	$1,000,000
Arizona	Yes	Yes	No	Yes	Yes	$1,000,000
Arkansas	No	Yes	No	Yes	Partial	$25,000
California	Yes	Yes	Yes	Yes	Yes	$25,000
Colorado	Yes	Yes	Yes	Yes	Yes	$1,000,000
Connecticut	Yes	Yes	Yes	Yes	Yes	$200,000
Delaware	Yes	Yes	No	No	No	$1,000,000
Florida	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
Georgia	Yes	Yes	No	Yes	Yes	$1,000,000
Hawaii	Yes	Yes	No	Yes	Yes	$25,000
Idaho	Yes	Yes	No	Yes	Yes	$1,000,000
Illinois	Yes	Yes	No	Yes	Yes	$1,000,000
Indiana	Yes	Yes	No	Yes	Yes	$25,000
Iowa	Yes	Yes	Yes	Yes	Yes	$1,000,000
Kansas	Yes	Yes	No	Yes	Yes	$1,000,000
Kentucky	Yes	Yes	No	Yes	Yes	$100,000
Louisiana	Yes	Yes	No	Yes	No	$1,000,000
Maine	Yes	Yes	No	Yes	Yes	$1,000,000
Maryland	Yes	Yes	No	Yes	Yes	$25,000
Massachusetts	Yes	Yes	No	Yes	Yes	$1,000,000
Michigan	Yes	Yes	No	Yes	Yes	$1,000,000
Minnesota	Yes	Yes	Yes	Yes	Yes	$1,000,000
Mississippi	No	Yes	No	Yes	Yes	$1,000,000
Missouri	Yes	Yes	No	Yes	Yes	$1,000,000
Montana	Yes	Yes	No	Yes	Yes	$1,000,000
Nebraska	Yes	Yes	No	Yes	Yes	$1,000,000
Nevada	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
New Hampshire	Yes	No	No	No	No	$500,000
New Jersey	No	Yes	No	Yes	Partial	$25,000
New Mexico	Yes	Yes	No	Yes	Yes	$1,000,000
New York	Yes	Yes	No	Yes	Partial	$1,000,000
North Carolina	Yes	Yes	No	Yes	Yes	$25,000
North Dakota	Yes	Yes	No	Yes	Yes	$1,000,000
Ohio	Yes	Yes	No	No	No	$1,000,000
Oklahoma	Yes	Yes	No	Yes	Yes	$1,000,000
Oregon	Yes	Yes	No	Yes	Yes	$1,000,000
Pennsylvania	No	Yes	No	Yes	Yes	$25,000
Rhode Island	Yes	Yes	No	Yes	Yes	$1,000,000
South Carolina	Yes	Yes	No	Yes	Yes	$1,000,000
South Dakota	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
Tennessee	Yes	Yes	No	Yes	No	$1,000,000
Texas	n.a.	n.a.	n.a.	No	No	$1,000,000
Utah	Yes	Yes	No	Yes	Yes	$1,000,000
Vermont	Yes	Yes	No	Yes	Yes	$1,000,000
Virginia	Yes	Yes	No	Yes	Yes	$1,000,000
Washington	n.a.	n.a.	n.a.	No	No	$1,000,000
West Virginia	Yes	Yes	No	Yes	Yes	$1,000,000
Wisconsin	Yes	Yes	No	Yes	Yes	$1,000,000
Wyoming	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000
District of Columbia	Yes	Yes	No	Yes	No	$25,000

Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 16.
State Sales and Excise Tax Rates (as of July 1, 2022)

	Sales Taxes		Excise Taxes				
	State Sales Tax Rate	Average Local Rate	Gasoline (cents per gallon) (e)	Diesel (cents per gallon) (e)	Cigarettes (dollars per pack of 20)	Beer (dollars per gallon)	Spirits (dollars per gallon) (g)
Alabama	4.00%	5.24%	31.31	32.25	$0.68	$1.05 (f)	$19.11 (h)
Alaska	n.a	1.76%	15.13	14.98	$2.00	$1.07	$12.80
Arizona	5.60%	2.77%	19.00	27.00	$2.00	$0.16	$3.00
Arkansas	6.50%	2.97%	24.80	28.80	$1.15	$0.34	$7.64
California (a)	7.25%	1.57%	70.95	102.01	$2.87	$0.20	$3.30
Colorado	2.90%	4.87%	22.00	20.50	$1.94	$0.08	$2.28
Connecticut	6.35%	n.a.	35.75	42.90	$4.35	$0.23	$5.94
Delaware	n.a	n.a.	23.00	22.00	$2.10	$0.26	$4.50
Florida	6.00%	1.01%	43.55	36.37	$1.34	$0.48	$6.50
Georgia	4.00%	3.37%	37.55	41.39	$0.37	$1.01 (f)	$3.79
Hawaii (b)	4.00%	0.44%	51.69	52.41	$3.20	$0.93	$5.98
Idaho	6.00%	0.02%	33.00	33.00	$0.57	$0.15	$10.91 (h)
Illinois	6.25%	2.48%	59.60	67.02	$2.98	$0.23	$8.55
Indiana	7.00%	n.a.	50.79	55.00	$1.00	$0.12	$2.68
Iowa	6.00%	0.94%	30.00	32.50	$1.36	$0.19	$13.03 (h)
Kansas	6.50%	2.21%	24.03	26.03	$1.29	$0.18	$2.50
Kentucky	6.00%	n.a.	26.00	23.00	$1.10	$0.89	$8.81
Louisiana	4.45%	5.10%	20.01	20.01	$1.08	$0.40	$3.03
Maine	5.50%	n.a.	30.01	31.21	$2.00	$0.35	$11.96 (h)
Maryland	6.00%	n.a.	42.70	43.45	$3.75	$0.55	$5.03
Massachusetts	6.25%	n.a.	26.54	26.54	$3.51	$0.11	$4.05
Michigan	6.00%	n.a.	45.17	47.16	$2.00	$0.20	$11.95 (h)
Minnesota	6.88%	0.61%	30.60	30.60	$3.70	$0.46	$8.77
Mississippi	7.00%	0.07%	18.79	18.40	$0.68	$0.43	$8.11
Missouri	4.23%	4.07%	22.42	22.42	$0.17	$0.06	$2.00
Montana (c)	n.a	n.a.	33.25	30.30	$1.70	$0.14	$9.83
Nebraska	5.50%	1.44%	25.70	25.10	$0.64	$0.31	$3.75
Nevada	6.85%	1.38%	50.48	28.56	$1.80	$0.16	$3.60
New Hampshire	n.a	n.a.	23.83	23.83	$1.78	$0.30	$0.00 (h)
New Jersey (d)	6.63%	-0.03%	50.70	57.70	$2.70	$0.12	$5.50
New Mexico (b)	5.00%	2.72%	18.88	22.88	$2.00	$0.41	$6.06
New York	4.00%	4.52%	48.22	46.98	$4.35	$0.14	$6.44
North Carolina	4.75%	2.23%	38.75	38.75	$0.45	$0.62	$15.33 (h)
North Dakota (b)	5.00%	1.96%	23.00	23.00	$0.44	$0.45	$4.68
Ohio	5.75%	1.49%	38.51	47.01	$1.60	$0.18	$9.83 (h)
Oklahoma	4.50%	4.49%	20.00	20.00	$2.03	$0.40	$5.56
Oregon	n.a	n.a.	38.83	38.06	$1.33	$0.08	$21.95 (h)
Pennsylvania	6.00%	0.34%	58.70	75.20	$2.60	$0.08	$7.41 (h)
Rhode Island	7.00%	n.a.	35.00	35.00	$4.25	$0.12	$5.40
South Carolina	6.00%	1.44%	28.75	29.10	$0.57	$0.77	$5.42
South Dakota (b)	4.50%	1.90%	30.00	30.00	$1.53	$0.27	$4.78
Tennessee	7.00%	2.55%	27.40	28.40	$0.62	$1.29	$4.46
Texas	6.25%	1.95%	20.00	20.00	$1.41	$0.20	$2.40
Utah (a)	6.10%	1.09%	31.91	31.91	$1.70	$0.41	$15.92 (h)
Vermont	6.00%	0.24%	34.45	34.31	$3.08	$0.27	$7.68 (h)
Virginia (a)	5.30%	0.45%	36.20	37.20	$0.60	$0.26	$19.89 (h)
Washington	6.50%	2.79%	49.40	49.40	$3.03	$0.26	$37.81
West Virginia	6.00%	0.55%	35.70	35.70	$1.20	$0.18	$7.62 (h)
Wisconsin	5.00%	0.43%	32.90	32.90	$2.52	$0.06	$3.25
Wyoming	4.00%	1.36%	24.00	24.00	$0.60	$0.02	$0.00 (h)
District of Columbia	6.00%	n.a.	33.80	33.80	$5.01	$0.72	$6.20

(a) Some state sales taxes include a local component collected uniformly across the state: California (1.25%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax rates.
(b) Sales tax rates in Hawaii, New Mexico, North Dakota, and South Dakota are not strictly comparable to other states due to broad bases that include many services.
(c) Special taxes in Montana's resort areas are not included in our analysis.
(d) Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.3125%. Their average local score is represented as a negative.
(e) Calculated rate including excise taxes, additional fees levied per gallon (such as storage tank and environmental fees), local excise taxes, and sales or gross receipts taxes.
(f) Includes a statewide local tax of 52 cents in Alabama and 53 cents in Georgia.
(g) May include taxes that are levied based on container size.
(h) These states outlaw private liquor sales and utilize state-run stores. These are called "control states," while "license states" are those that permit private wholesale and retail sales. All license states have an excise tax rate in law, expressed in dollars per gallon. Control states levy no statutory tax but usually raise comparable revenue by charging higher prices. The Distilled Spirits Council of the U.S. has computed approximate excise tax rates for control states by comparing prices of typical products sold in their state-run stores to the pre-tax prices of liquor in states where liquor is privately sold. In New Hampshire, average liquor prices charged in state-run stores are lower than pre-tax prices in license states. Washington privatized its liquor sales but enacted tax increases as a part of the package.

Source: Tax Foundation; Bloomberg Tax; American Petroleum Institute; Distilled Spirits Council of the United States; Federation of Tax Administrators.

TABLE 17.

State Sales Tax Bases: Exemptions for Business-to-Business Transactions (as of July 1, 2022)

	Specific Exemption	Farm Equipment	Office Equipment	Manufacturing Machinery	Manufacturing Raw Materials	Business Fuel & Utilities	Business Lease & Rentals	Information Services
Alabama	No	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt
Arkansas	No	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
California	No	Partial	Taxable	Partial	Exempt	Taxable	Taxable	Exempt
Colorado	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Connecticut	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Georgia	No	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
Hawaii	No	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
Idaho	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Illinois	No	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt
Indiana	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Iowa	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kansas	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kentucky	No	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt
Louisiana	No	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Maine	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Maryland	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Massachusetts	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Michigan	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Minnesota	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Mississippi	No	Partial	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
Missouri	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	No	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt
Nevada	No	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
New Mexico	No	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
New York	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
North Carolina	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
North Dakota	No	Partial	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
Ohio	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Oklahoma	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Rhode Island	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
South Carolina	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
South Dakota	No	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable
Tennessee	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt
Texas	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Utah	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Vermont	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Virginia	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Washington	No	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
West Virginia	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Wisconsin	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Wyoming	No	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
District of Columbia	No	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable

Note: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as “not applicable” (n.a.) within Table 17, although Alaska has a local option sales tax.
Source: Tax Foundation; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 18.
State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2022)

	Goods					Services		
	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline	Legal	Financial	Accounting
Alabama	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Arkansas	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
California	Exempt	Taxable	Exempt	Taxable	Alternate Rate	Exempt	Exempt	Exempt
Colorado	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Connecticut	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Georgia	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Hawaii	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable
Idaho	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Illinois	Alternate Rate	Taxable	Alternate Rate	Alternate Rate	Taxable	Exempt	Exempt	Exempt
Indiana	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Iowa	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt
Kansas	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Kentucky	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Louisiana	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Maine	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Michigan	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Minnesota	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Mississippi	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Missouri	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Nevada	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
New Mexico	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable
New York	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
North Carolina	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
North Dakota	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Ohio	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Oklahoma	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
South Carolina	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
South Dakota	Taxable	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable
Tennessee	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Texas	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Utah	Alternate Rate	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	Alternate Rate	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
West Virginia	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Wisconsin	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Wyoming	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
District of Columbia	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 18, CONTINUED.

State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2022)

	Services								
	Medical	Landscaping	Repair	Real Estate Services	Parking	Dry Cleaning	Fitness	Barber	Veterinary
Alabama	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Arkansas	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
California	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Colorado	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Connecticut	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Exempt	Taxable	Exempt	Partial	Exempt	Taxable	Exempt	Exempt
Georgia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Hawaii	Taxable	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable
Idaho	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Illinois	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Indiana	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Iowa	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Exempt
Kansas	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Kentucky	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	Taxable
Louisiana	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Maine	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Maryland	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Michigan	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Minnesota	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Mississippi	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Missouri	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Nevada	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Taxable	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt
New Mexico	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
New York	Exempt	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
North Carolina	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
North Dakota	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Ohio	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Oklahoma	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
South Carolina	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
South Dakota	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
Tennessee	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Texas	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt
Utah	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable
West Virginia	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Wisconsin	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt
Wyoming	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt
District of Columbia	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.
Source: Tax Foundation; state statutes.

TABLE 19.

Sales Tax Structure (as of July 1, 2022)

	Uniform Base Definitions	Unified Tax Administration	Safe Harbor for Remote Sellers
Alabama	Yes	No	Gross Sales Threshold
Alaska	No	No	n.a.
Arizona	No	Yes	Gross Sales Threshold
Arkansas	Yes	Yes	Sales or Transactions Threshold
California	Yes	Yes	Gross Sales Threshold
Colorado	No	No	Gross Sales Threshold
Connecticut	Yes	Yes	Gross Sales Threshold
Delaware	n.a.	n.a.	n.a.
Florida	Yes	Yes	n.a.
Georgia	Yes	Yes	Sales or Transactions Threshold
Hawaii	Yes	Yes	Sales or Transactions Threshold
Idaho	No	Yes	Gross Sales Threshold
Illinois	Yes	Yes	Sales or Transactions Threshold
Indiana	Yes	Yes	Sales or Transactions Threshold
Iowa	Yes	Yes	Gross Sales Threshold
Kansas	Yes	Yes	Gross Sales Threshold
Kentucky	Yes	Yes	Sales or Transactions Threshold
Louisiana	No	No	Sales or Transactions Threshold
Maine	Yes	Yes	Gross Sales Threshold
Maryland	Yes	Yes	Sales or Transactions Threshold
Massachusetts	Yes	Yes	Gross Sales Threshold
Michigan	Yes	Yes	Sales or Transactions Threshold
Minnesota	Yes	Yes	Sales or Transactions Threshold
Mississippi	Yes	Yes	Gross Sales Threshold
Missouri	Yes	Yes	n.a.
Montana	n.a.	n.a.	n.a.
Nebraska	Yes	Yes	Sales or Transactions Threshold
Nevada	Yes	Yes	Sales or Transactions Threshold
New Hampshire	n.a.	n.a.	n.a.
New Jersey	Yes	Yes	Sales or Transactions Threshold
New Mexico	Yes	Yes	Gross Sales Threshold
New York	Yes	Yes	Gross Sales Threshold
North Carolina	Yes	Yes	Sales or Transactions Threshold
North Dakota	Yes	Yes	Gross Sales Threshold
Ohio	Yes	Yes	Sales or Transactions Threshold
Oklahoma	Yes	Yes	Gross Sales Threshold
Oregon	Yes	n.a.	n.a.
Pennsylvania	Yes	Yes	Gross Sales Threshold
Rhode Island	Yes	Yes	Sales or Transactions Threshold
South Carolina	Yes	Yes	Gross Sales Threshold
South Dakota	Yes	Yes	Sales or Transactions Threshold
Tennessee	Yes	Yes	Gross Sales Threshold
Texas	Yes	Yes	Gross Sales Threshold
Utah	Yes	Yes	Sales or Transactions Threshold
Vermont	Yes	Yes	Sales or Transactions Threshold
Virginia	Yes	Yes	Sales or Transactions Threshold
Washington	Yes	Yes	Gross Sales Threshold
West Virginia	Yes	Yes	Sales or Transactions Threshold
Wisconsin	Yes	Yes	Gross Sales Threshold
Wyoming	Yes	Yes	Sales or Transactions Threshold
District of Columbia	Yes	Yes	Sales or Transactions Threshold

Note: States that do not require remote sales tax collection are listed as "not applicable" (n.a.) within Table 19.
Source: Tax Foundation; state statutes.

TABLE 20.

State Property Tax Rates and Capital Stock Tax Rates (as of July 1, 2022)

	Property Tax Collections Per Capita	Property Tax as a Percentage of Personal Income	Capital Stock Tax Rate	Capital Stock Max Payment	Payment Options for CST and CIT
Alabama	$620	1.37%	0.175%	$15,000	Pay both
Alaska	$2,222	3.63%	None	n.a.	n.a.
Arizona	$1,150	2.31%	None	n.a.	n.a.
Arkansas	$788	1.69%	0.3%	Unlimited	Pay both
California	$1,840	2.77%	None	n.a.	n.a.
Colorado	$1,816	2.99%	None	n.a.	n.a.
Connecticut	$3,215	4.20%	0.21%	$1,000,000	Pay highest
Delaware	$967	1.86%	0.04%	$200,000	Pay both
Florida	$1,454	2.69%	None	n.a.	n.a.
Georgia	$1,290	2.57%	(a)	$5,000	Pay both
Hawaii	$1,455	2.72%	None	n.a.	n.a.
Idaho	$1,101	2.28%	None	n.a.	n.a.
Illinois	$2,338	3.65%	0.1%	$2,000,000	Pay both
Indiana	$1,139	2.19%	None	n.a.	n.a.
Iowa	$1,775	3.39%	None	n.a.	n.a.
Kansas	$1,661	3.06%	None	n.a.	n.a.
Kentucky	$873	1.91%	None	n.a.	n.a.
Louisiana	$925	1.80%	0.275%	Unlimited	Pay both
Maine	$2,772	5.21%	None	n.a.	n.a.
Maryland	$1,689	2.66%	None	n.a.	n.a.
Massachusetts	$2,590	3.37%	0.26%	Unlimited	Pay highest
Michigan	$1,524	2.99%	None	n.a.	n.a.
Minnesota	$1,727	2.85%	None	n.a.	n.a.
Mississippi	$1,105	2.73%	0.15%	Unlimited	Pay both
Missouri	$1,118	2.14%	None	n.a.	n.a.
Montana	$1,717	3.34%	None	n.a.	n.a.
Nebraska	$2,013	3.64%	(a)	$11,995	Pay both
Nevada	$1,041	2.08%	None	n.a.	n.a.
New Hampshire	$3,246	4.79%	None	n.a.	n.a.
New Jersey	$3,513	4.80%	None	n.a.	n.a.
New Mexico	$884	1.92%	None	n.a.	n.a.
New York	$3,180	4.36%	0.1875%	$5,000,000	Pay highest
North Carolina	$1,047	2.08%	0.15%	Unlimited	Pay both
North Dakota	$1,586	2.53%	None	n.a.	n.a.
Ohio	$1,397	2.72%	None	n.a.	n.a.
Oklahoma	$826	1.75%	0.125%	$20,000	Pay both
Oregon	$1,670	3.04%	None	n.a.	n.a.
Pennsylvania	$1,631	2.71%	None	n.a.	n.a.
Rhode Island	$2,526	4.09%	None	n.a.	n.a.
South Carolina	$1,272	2.68%	0.1%	Unlimited	Pay both
South Dakota	$1,532	2.66%	None	n.a.	n.a.
Tennessee	$834	1.61%	0.25%	Unlimited	Pay both
Texas	$2,098	3.99%	None	n.a.	n.a.
Utah	$1,153	2.32%	None	n.a.	n.a.
Vermont	$2,938	4.82%	None	n.a.	n.a.
Virginia	$1,770	2.94%	None	n.a.	n.a.
Washington	$1,703	2.53%	None	n.a.	n.a.
West Virginia	$963	2.22%	None	n.a.	n.a.
Wisconsin	$1,685	3.07%	None	n.a.	n.a.
Wyoming	$2,062	3.29%	0.02%	Unlimited	Pay both
District of Columbia	$3,969	4.73%	None	n.a.	n.a.

(a) Based on a fixed dollar payment schedule. Effective tax rates decrease as taxable capital increases.
Note: States without a capital stock tax are listed as "not applicable" (n.a.) within Table 20.
Source: Tax Foundation calculations from U.S. Census Bureau data; Bloomberg Tax; state statutes.

DATA TABLES

TABLE 21.

State Property Tax Bases (as of July 1, 2022)

	Tangible Personal Property Tax	Intangible Property Tax	Inventory Tax	Real Estate Transfer Tax	Split Roll Ratio	Estate Tax	Inheritance Tax	Gift Tax
Alabama	Yes	Yes	No	Yes	2.00	No	No	No
Alaska	Yes	No	Partial	No	No Split Roll	No	No	No
Arizona	Yes	No	No	No	1.80	No	No	No
Arkansas	Yes	No	Yes	Yes	No Split Roll	No	No	No
California	Yes	No	No	Yes	No Split Roll	No	No	No
Colorado	Yes	No	No	Yes	4.03	No	No	No
Connecticut	Yes	No	No	Yes	2.17	Yes	No	Yes
Delaware	No	No	No	Yes	No Split Roll	No	No	No
Florida	Yes	No	No	Yes	No Split Roll	No	No	No
Georgia	Yes	No	Partial	Yes	No Split Roll	No	No	No
Hawaii	No	No	No	Yes	3.54	Yes	No	No
Idaho	Yes	No	No	No	No Split Roll	No	No	No
Illinois	No	No	No	Yes	1.61	Yes	No	No
Indiana	Yes	No	No	No	No Split Roll	No	No	No
Iowa	No	Yes	No	Yes	1.66	No	Yes	No
Kansas	Yes	No	No	No	2.17	No	No	No
Kentucky	Yes	Yes	Yes	Yes	No Split Roll	No	Yes	No
Louisiana	Yes	Yes	Yes	No	No Split Roll	No	No	No
Maine	Yes	No	No	Yes	No Split Roll	Yes	No	No
Maryland	Yes	No	Yes	Yes	No Split Roll	Yes	Yes	No
Massachusetts	Yes	No	Partial	Yes	No Split Roll	Yes	No	No
Michigan	Yes	No	Partial	Yes	No Split Roll	No	No	No
Minnesota	Partial	No	No	Yes	1.60	Yes	No	No
Mississippi	Yes	Yes	Yes	No	1.50	No	No	No
Missouri	Yes	No	No	No	1.75	No	No	No
Montana	Yes	No	No	No	1.40	No	No	No
Nebraska	Yes	No	No	Yes	No Split Roll	No	Yes	No
Nevada	Yes	No	No	Yes	No Split Roll	No	No	No
New Hampshire	Partial	No	No	Yes	No Split Roll	No	No	No
New Jersey	No	No	No	Yes	No Split Roll	No	Yes	No
New Mexico	Yes	No	No	No	No Split Roll	No	No	No
New York	No	No	No	Yes	3.79	Yes	No	No
North Carolina	Yes	No	No	Yes	No Split Roll	No	No	No
North Dakota	Partial	No	No	No	1.11	No	No	No
Ohio	No	No	No	Yes	No Split Roll	No	No	No
Oklahoma	Yes	No	Yes	Yes	1.23	No	No	No
Oregon	Yes	No	No	No	No Split Roll	Yes	No	No
Pennsylvania	No	No	No	Yes	No Split Roll	No	Yes	No
Rhode Island	Yes	No	No	Yes	No Split Roll	Yes	No	No
South Carolina	Yes	No	No	Yes	1.50	No	No	No
South Dakota	Partial	Yes	No	Yes	No Split Roll	No	No	No
Tennessee	Yes	Yes	No	Yes	1.60	No	No	No
Texas	Yes	Yes	Yes	No	No Split Roll	No	No	No
Utah	Yes	No	No	No	1.82	No	No	No
Vermont	Yes	No	Partial	Yes	No Split Roll	Yes	No	No
Virginia	Yes	No	Yes	Yes	No Split Roll	No	No	No
Washington	Yes	No	No	Yes	No Split Roll	Yes	No	No
West Virginia	Yes	No	Yes	Yes	No Split Roll	No	No	No
Wisconsin	Yes	No	No	Yes	No Split Roll	No	No	No
Wyoming	Yes	No	No	No	1.21	No	No	No
District of Columbia	Yes	No	No	Yes	2.08	Yes	No	No

Note: Split roll ratio represents the ratio between commercial and residential property taxes.
Source: Tax Foundation; Bloomberg Tax; state statutes.

TABLE 22.

State Unemployment Insurance Tax Rates (as of July 1, 2022)

State	Minimum Rate	Maximum Rate	Taxable Wage Base	Most Favorable Schedule		Least Favorable Schedule	
				Minimum Rate	Maximum Rate	Minimum Rate	Maximum Rate
Alabama	1.15%	7.30%	$8,000	0.14%	5.40%	0.65%	6.80%
Alaska	1.00%	5.40%	$45,200	1.00%	6.50%	1.00%	6.50%
Arizona	0.08%	20.93%	$10,000	0.02%	5.40%	0.02%	5.40%
Arkansas	0.30%	14.20%	$10,000	0.10%	6.00%	0.80%	6.00%
California	1.60%	6.20%	$7,000	0.10%	5.40%	1.50%	6.20%
Colorado	0.75%	10.39%	$17,000	0.51%	6.28%	0.75%	10.39%
Connecticut	1.90%	6.80%	$15,000	0.50%	5.40%	0.50%	5.40%
Delaware	0.30%	8.20%	$14,500	0.10%	8.00%	0.10%	8.00%
Florida	0.10%	5.40%	$7,000	0.10%	5.40%	0.10%	5.40%
Georgia	0.04%	8.10%	$9,500	0.01%	5.40%	0.04%	8.10%
Hawaii	0.21%	5.40%	$51,600	0.00%	5.40%	2.40%	6.60%
Idaho	0.25%	5.40%	$46,500	0.18%	5.40%	0.96%	6.80%
Illinois	0.73%	7.63%	$12,960	0.20%	6.40%	0.20%	6.40%
Indiana	0.50%	7.40%	$9,500	0.00%	5.40%	0.75%	10.20%
Iowa	0.00%	7.50%	$34,800	0.00%	7.00%	0.00%	9.00%
Kansas	0.20%	7.60%	$14,000	0.20%	7.60%	0.20%	7.60%
Kentucky	0.30%	10.00%	$10,800	0.00%	9.00%	1.00%	10.00%
Louisiana	0.09%	6.20%	$7,700	0.09%	6.00%	0.09%	6.00%
Maine	0.74%	6.37%	$12,000	0.00%	5.40%	0.00%	5.40%
Maryland	1.00%	10.50%	$8,500	0.30%	7.50%	2.20%	13.50%
Massachusetts	1.11%	16.22%	$15,000	0.56%	8.62%	1.21%	18.55%
Michigan	0.06%	10.30%	$9,500	0.00%	6.30%	0.00%	6.30%
Minnesota	0.60%	9.50%	$38,000	0.10%	9.00%	0.40%	9.40%
Mississippi	0.20%	5.60%	$14,000	0.00%	5.40%	0.00%	5.40%
Missouri	0.00%	6.75%	$11,000	0.00%	5.40%	0.00%	7.80%
Montana	0.13%	6.30%	$38,100	0.00%	6.12%	1.62%	6.12%
Nebraska	0.00%	5.40%	$9,000	0.00%	5.40%	0.00%	5.40%
Nevada	0.30%	5.40%	$36,600	0.25%	5.40%	0.25%	5.40%
New Hampshire	0.60%	9.00%	$14,000	0.10%	7.00%	0.10%	8.50%
New Jersey	0.50%	5.80%	$36,600	0.30%	5.40%	1.30%	7.70%
New Mexico	0.33%	6.40%	$28,700	0.33%	5.40%	0.33%	5.40%
New York	2.10%	9.90%	$12,000	0.00%	5.90%	1.50%	8.90%
North Carolina	0.06%	5.76%	$28,000	0.06%	5.76%	0.06%	5.76%
North Dakota	0.08%	9.69%	$38,400	0.01%	5.40%	0.01%	5.40%
Ohio	0.80%	10.20%	$9,000	0.00%	6.30%	0.30%	6.70%
Oklahoma	0.30%	7.50%	$24,800	0.10%	5.50%	0.30%	9.20%
Oregon	0.90%	5.40%	$47,700	0.50%	5.40%	2.20%	5.40%
Pennsylvania	1.29%	9.93%	$10,000	0.00%	8.95%	0.00%	8.95%
Rhode Island	1.20%	9.80%	$24,600	0.21%	7.40%	1.20%	10.00%
South Carolina	0.06%	5.46%	$14,000	0.00%	5.40%	0.00%	5.40%
South Dakota	0.00%	9.85%	$15,000	0.00%	9.30%	0.00%	9.45%
Tennessee	0.01%	10.00%	$7,000	0.01%	10.00%	0.50%	10.00%
Texas	0.31%	6.31%	$9,000	0.00%	6.00%	0.00%	6.00%
Utah	0.20%	7.30%	$41,600	0.00%	7.00%	0.00%	7.00%
Vermont	0.80%	6.50%	$15,500	0.40%	5.40%	1.30%	8.40%
Virginia	0.33%	6.43%	$8,000	0.00%	5.40%	0.10%	6.20%
Washington	0.23%	8.03%	$62,500	0.00%	5.40%	0.00%	5.40%
West Virginia	1.50%	8.50%	$9,000	0.00%	7.50%	1.50%	7.50%
Wisconsin	0.00%	12.00%	$14,000	0.00%	10.70%	0.07%	10.70%
Wyoming	0.48%	8.85%	$27,700	0.00%	8.50%	0.00%	8.50%
District of Columbia	2.10%	7.60%	$9,000	0.10%	5.40%	1.90%	7.40%

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022); U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (2021).

TABLE 23.

State Unemployment Insurance Tax Bases: Experience Formulas and Charging Methods (as of July 1, 2022)

			Company Charged for Benefits If					
State	Experience Formula Based On	Benefits Are Charged to Employers in Proportion to Base Period Wages	Employee's Benefit Award Reversed	Reimbursements on Combined Wage Claims	Employee Left Voluntarily	Employee Discharged for Misconduct	Employee Refused Suitable Work	Employee Continues to Work for Employer Part-Time
Alabama	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
Alaska	Payroll Decline	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
Arizona	Reserve Ratio	Yes	No	No	No	No	Yes	No
Arkansas	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
California	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Colorado	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Connecticut	Benefits Ratio	Yes	No	No	No	No	No	No
Delaware	Benefit Wage Ratio	Yes	No	No	No	No	No	No
Florida	Benefits Ratio	Yes	No	Yes	No	No	No	No
Georgia	Reserve Ratio	No (b)	No	No	No	No	No	Yes
Hawaii	Reserve Ratio	Yes	Yes	No	No	No	No	No
Idaho	Reserve Ratio	No (c)	No	No	No	No	Yes	No
Illinois	Benefits Ratio	No (b)	No	No	No	No	No	No
Indiana	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Iowa	Benefits Ratio	No (a)	No	No	No	No	No	No
Kansas	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No
Kentucky	Reserve Ratio	No (b)	Yes	No	No	No	No	No
Louisiana	Reserve Ratio	Yes	No	No	No	No	No	No
Maine	Reserve Ratio	No (b)	No	Yes	No	No	No	No
Maryland	Benefits Ratio	Yes	No	Yes	No	Yes	Yes	No
Massachusetts	Reserve Ratio	No (a)	No	Yes	Yes	Yes	Yes	No
Michigan	Benefits Ratio	Yes	Yes	No	No	No	No	No
Minnesota	Benefits Ratio	Yes	No	No	No	No	Yes	No
Mississippi	Benefits Ratio	Yes	Yes	Yes	No	No	No	No
Missouri	Reserve Ratio	Yes	No	No	No	No	No	No
Montana	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Nebraska	Reserve Ratio	No (a)	No	Yes	No	No	Yes	No
Nevada	Reserve Ratio	No (c)	Yes	No	No	No	Yes	Yes
New Hampshire	Reserve Ratio	No (b)	No	No	No	No	No	No
New Jersey	Reserve Ratio	Yes	No	Yes	No	No	No	Yes
New Mexico	Benefits Ratio	Yes	No	Yes	No	No	No	No
New York	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
North Carolina	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No
North Dakota	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Ohio	Reserve Ratio	Yes	No	No	No	No	No	No
Oklahoma	Benefit Wage Ratio	Yes	No	Yes	No	No	No	No
Oregon	Benefits Ratio	Yes	No	No	No	No	Yes	No
Pennsylvania	Benefits Ratio	Yes	No	No	No	No	Yes	No
Rhode Island	Reserve Ratio	No	No	No	No	No	No	No
South Carolina	Benefits Ratio	No (b)	No	No	No	No	No	No
South Dakota	Reserve Ratio	No (a)	No	Yes	No	No	Yes	Yes
Tennessee	Reserve Ratio	Yes	No	No	No	No	Yes	No
Texas	Benefits Ratio	Yes	No	Yes	No	No	Yes	Yes
Utah	Benefits Ratio	Yes	No	No	No	No	Yes	No
Vermont	Benefits Ratio	Yes	No	No	No	No	No	No
Virginia	Benefits Ratio	No (b)	Yes	No	Yes	Yes	Yes	Yes
Washington	Benefits Ratio	Yes	Yes	Yes	No	No	Yes	No
West Virginia	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Wisconsin	Reserve Ratio	Yes	Yes	No	No	No	No	Yes
Wyoming	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
District of Columbia	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No

(a) Benefits charged to base-period employers, most recent first (inverse order).
(b) Benefits charged to most recent employer.
(c) Benefits charged to employer who paid largest amount of wages.
Note: Alaska uses a payroll decline experience formula, so other features are listed as not applicable (n.a.).
Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022).

TABLE 24.

State Unemployment Insurance Tax Bases: Other Variables (as of July 1, 2022)

State	Solvency Tax	Taxes for Socialized Costs or Negative Balance Employer	Loan and Interest Repayment Surtaxes	Reserve Taxes	Surtaxes for UI Administration or Non-UI Purposes	Temporary Disability Insurance	Voluntary Contributions	Time Period to Qualify for Experience Rating (Years)
Alabama	No	Yes	Yes	No	Yes	No	No	2.5
Alaska	Yes	No	No	No	Yes	No	No	1
Arizona	No	No	Yes	No	No	No	Yes	2
Arkansas	Yes	No	Yes	No	Yes	No	Yes	3
California	Yes	No	No	No	Yes	Yes	Yes	3
Colorado	Yes	No	Yes	No	No	No	Yes	1
Connecticut	Yes	No	Yes	No	No	No	No	1
Delaware	Yes	No	Yes	No	Yes	No	No	2
Florida	No	No	Yes	No	No	No	No	2.5
Georgia	Yes	No	No	No	Yes	No	Yes	3
Hawaii	No	No	Yes	No	Yes	Yes	No	1
Idaho	No	No	Yes	Yes	Yes	No	No	1.5
Illinois	Yes	No	No	No	No	No	No	3
Indiana	Yes	No	Yes	No	No	No	Yes	3
Iowa	No	No	Yes	Yes	No	No	No	3
Kansas	Yes	No	No	No	No	No	Yes	2
Kentucky	No	No	Yes	No	Yes	No	Yes	3
Louisiana	Yes	Yes	Yes	No	Yes	No	Yes	2
Maine	No	No	Yes	No	Yes	No	No	2
Maryland	No	No	No	No	Yes	No	No	2
Massachusetts	Yes	No	No	No	Yes	No	Yes	3
Michigan	Yes	Yes	Yes	No	No	No	Yes	1
Minnesota	Yes	No	Yes	No	Yes	No	Yes	1
Mississippi	No	No	No	No	Yes	No	No	3
Missouri	Yes	No	Yes	No	No	No	Yes	2
Montana	No	No	No	No	Yes	No	No	3
Nebraska	No	No	No	Yes	No	No	Yes	1
Nevada	No	No	Yes	No	Yes	No	No	3
New Hampshire	Yes	No	No	No	Yes	No	No	1
New Jersey	Yes	No	Yes	No	Yes	Yes	Yes	3
New Mexico	No	No	No	No	No	No	Yes	2
New York	Yes	No	Yes	No	Yes	Yes	No	1.25
North Carolina	Yes	No	No	Yes	No	No	Yes	2
North Dakota	No	No	No	No	No	No	Yes	1
Ohio	Yes	Yes	No	No	No	No	Yes	1.25
Oklahoma	Yes	No	No	No	Yes	No	No	2
Oregon	No	No	Yes	No	Yes	No	No	1
Pennsylvania	Yes	No	Yes	No	No	No	Yes	1.5
Rhode Island	No	No	No	No	Yes	No	Yes	3
South Carolina	No	No	Yes	No	Yes	No	No	1
South Dakota	Yes	No	No	No	Yes	No	Yes	2
Tennessee	Yes	No	Yes	No	No	No	No	3
Texas	Yes	Yes	Yes	No	Yes	No	Yes	1.5
Utah	No	Yes	No	No	No	No	No	1
Vermont	No	No	No	No	No	No	No	1
Virginia	Yes	Yes	No	No	No	No	No	1
Washington	Yes	Yes	Yes	No	Yes	No	Yes	1.5
West Virginia	No	No	Yes	No	No	No	Yes	3
Wisconsin	Yes	No	Yes	No	Yes	No	Yes	3
Wyoming	Yes	Yes	No	No	Yes	No	No	3
District of Columbia	No	No	Yes	No	Yes	No	No	3

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2022); U.S. Department of Labor, *Comparison of State Unemployment Laws* (2021).

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GOVERNOR DOUG BURGUM TESTIMONY ON HB 1158
MARCH 13, 2023
SENATE FINANCE AND TAXATION COMMITTEE
FORT TOTTEN ROOM
SENATOR JORDAN KANNIANEN, CHAIRMAN

DOUG BURGUM – GOVERNOR OF NORTH DAKOTA

Chairman Kannianen, members of the committee, for the record, my name is Doug Burgum.

As you know, North Dakota's finances are in very good shape, perhaps the best shape in our state's 123-year history. Our combined reserves are the highest ever. Our general fund revenues are running 24 percent, or $785 million, ahead of forecast. Our oil tax revenues are running 63 percent, or nearly $1.8 billion, ahead of forecast. We have more than $8 billion in the Legacy Fund and $5.7 billion in the Common Schools Trust Fund, as well as $720 in our rainy-day Budget Stabilization Fund, an anticipated general fund ending balance of $1.15 billion and an estimated balance at the end of this biennium of $1.4 billion in the Strategic Investment and Improvements Fund. We are perfectly suited to provide citizens the tax relief they deserve, and we must do this first, before we expand our state expenditures.

When the state is doing well, citizens should share in that prosperity– especially when competition for workers is fierce and every advantage helps as we try to attract and retain workers in North Dakota. Our state tied with South Dakota for the lowest unemployment rate in the nation in 2022, at 2.1 percent.

To accomplish these dual goals of tax relief and workforce attraction, we support the income tax relief proposed in House Bill 1158 – the largest income tax relief package in state history. This bill will eliminate the state individual income tax for approximately three out of five taxpayers. Those who will still pay income tax will see their liability reduced by roughly one-quarter to one-half, allowing North Dakotans to keep more of their hard-earned money – an estimated $566 million next biennium – to offset expenses and invest in their families and communities.

Every North Dakota income taxpayer will benefit from this plan, which will make North Dakota the lowest flat-tax state in the nation. Again, this would effectively eliminate the state's individual income tax for nearly 60% of income taxpayers. The rest would pay a flat tax of 1.5%, compared to current income tax rates that range from 2.04% to 2.9%. That translates to a reduction from 26% to 48% in their state income taxes.

This puts us on a path toward eventually zeroing out our individual income tax and joining the nine states that don't have individual income tax. I must also point out that these states do not differentiate between in-state and out-of-state taxpayers – they do this because they welcome the business and know that whether the relief is to a citizen living in their state or supports a business in the state, it is good for the state. The no individual income tax states include some of our nation's fastest-growing states and ones with whom we compete for workers in the energy industry and other sectors, including Alaska, Texas and Wyoming, and our neighbor South Dakota.

A gradual phase-out of income taxes will give the Legacy Fund time to grow and kick off higher revenues that can be used to eventually replace oil and gas tax revenues and, in the short-term, help offset any potential revenue shortfalls, ensuring the state can continue to fund priorities through economic ups and downs.

I want to again thank Tax Commissioner Kroshus, Rep. Headland, Sen. Kannianen, Sen. Meyer, Rep. Bosch and Rep. Dockter for their partnership and leadership on this proposal, along with the bill's other co-sponsors, Sens. Axtman, Conley, Kirsten Roers and Wanzek, and Reps. Grueneich, Hagert and Heinert.

We're grateful to the legislators who supported last year's income tax package to provide meaningful relief to our citizens. The proposal before you now will build upon that relief to allow North Dakota working families to keep more of their paycheck in their pockets as inflation and rising interest rates continue to eat away at family finances.

As tax relief options go, we prefer this income tax relief because it provides permanent, immediate relief, it benefits a greater number of North Dakotans, including those who don't own property, and it makes North Dakota more competitive with other states when vying for workers.

We welcome the opportunity to work with local and state elected officials to find strategic ways to reduce property taxes – not just subsidize locally levied property taxes with state dollars – because with property tax relief, the state can never guarantee it will reach the individual citizens.

With several tax bills moving through the legislature including the bill currently being discussed (HB 1158), a tax credit proposal with a flat tax added on which you will hear shortly (HB 118) and several property tax bills including two Homestead tax credit bills and the school mill buy down (SB 2066).

It is important while you make your decisions that you utilize the best data possible and as such, we have provided a one-pager with six family examples from around the state with a mixture of family sizes, income levels, property types (rent and own) and values. As you can see, in these examples, HB 1158 provides the greatest level of tax relief for the various examples provided and we urge you to move this relief forward.

Now is the right time to provide a meaningful, permanent income tax cut to make our state a more attractive place to work and a more affordable place to live. It's a real reduction in taxes, because it means government collects less revenue.

Thank you, Mr. Chairman, and members of the Senate Finance and Taxation Committee.

#24129

INCOME TAX RELIEF
VS. PROPERTY TAX RELIEF

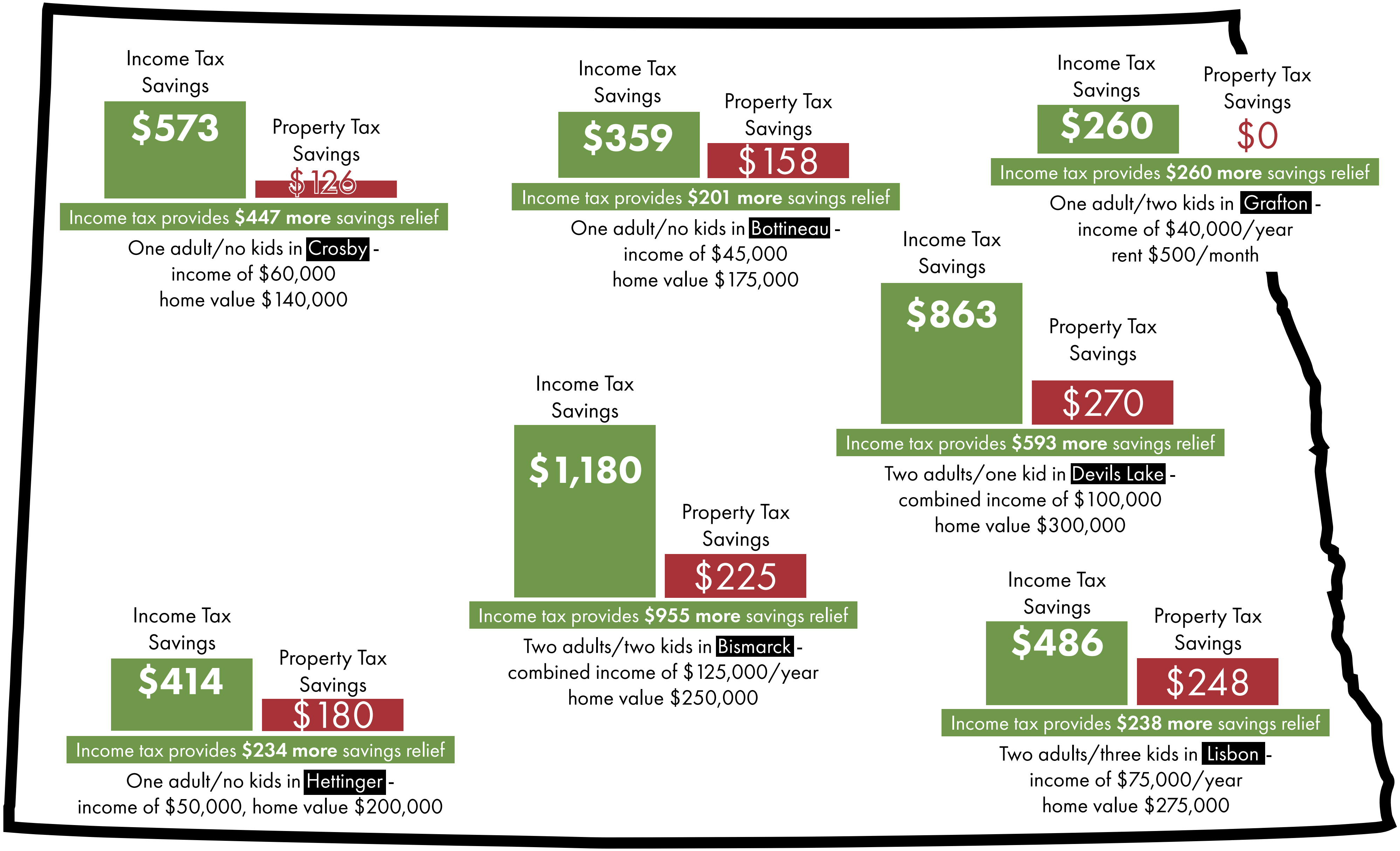
A SAVINGS COMPARISON

INCOME TAX	PROPERTY TAX
Two adults/two kids in Bismarck - combined income of $125,000/year, home value $250,000	
Current: $1,458 • Proposed: $278 • Savings: $1,180	Current: $2,860 • Proposed: $2,635 • Savings: $225
$1,180 +$955 more	**$225**
One parent/two kids in Grafton - income of $40,000/year, rent $500/month	
Current: $260 • Proposed: $0 • Savings: $260	Current: $0 • Proposed: $0 • Savings: $0
$260 +$260 more	**$0**
One adult/no kids in Crosby - income of $60,000, home value $140,000	
Current: $594 • Proposed: $21 • Savings: $573	Current: $1,480 • Proposed: $1,354 • Savings: $126
$573 +$447 more	**$126**
One adult/no kids in Hettinger - income of $50,000, home value $200,000	
Current: $414 • Proposed: $0 • Savings: $414	Current: $2,631 • Proposed: $2,451 • Savings: $180
$414 +$234 more	**$180**
One adult/no kids in Bottineau - income of $45,000, home value $175,000	
Current: $359 • Proposed: $0 • Savings: $359	Current: $2,430 • Proposed: $2,273 • Savings: $158
$359 +$201 more	**$158**
Two adults, three kids in Lisbon - combined income of $75,000, home value $275,000	
Current: $486 • Proposed: $0 • Savings: $486	Current: $4,139 • Proposed: $3,891 • Savings: $248
$486 +$238 more	**$248**
Proposed income tax savings estimates using HB 1158 flat tax and assuming only the standard deduction is taken.	Proposed property tax savings estimates using SB 2066 20 mil reduction, property tax estimates using 2021 mill rates.

**Current amounts listed are based on 2020 income tax and property tax estimates.

INCOME TAX RELIEF
VS. PROPERTY TAX RELIEF

A SAVINGS COMPARISON



Good morning Madam Chair and Members of the Committee,

My name is Timothy Vermeer, and I am a Senior Policy Analyst with the Tax Foundation. Thank you for the opportunity to testify today on the impact of the proposed individual income tax rate reduction.

North Dakota's economy is in a strong position by nearly any metric. According to the most recent state unemployment report published by the U.S. Bureau of Labor Statistics (BLS), the unemployment rate in December in North Dakota was 2.1 percent.[1] Since 2000, the average annual unemployment rate for the state has been 3.2 percent. Historically, the national natural unemployment rate, the rate at which supply and demand for labor is at an equilibrium has been near 4 percent. By both those benchmarks, North Dakota's labor market is very tight. Nearly everyone who wants a job has a job. What is left is mostly frictional unemployment—those transitioning between jobs.

According to the December Job Openings and Labor Turnover Survey, the most recent month of data reported by the Bureau of Labor Statistics, there were four open jobs in North Dakota for every unemployed person.[2] So despite the labor force participation rate and the unemployment rate having recovered and even exceeded pre-pandemic levels, the principal factor limiting North Dakota's economic growth is still the size of its labor force.[3]

People make decisions to work or reside in a particular jurisdiction for a variety of reasons. Among other things, businesses care about an educated workforce—the greater the stock of human capital, the greater a firm's productivity. Companies care about access to infrastructure and efficiently delivering their goods to market. They care about government services including police, fire, and emergency medical services. Individuals and families care about school quality, weather patterns, and

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[1] https://www.bls.gov/web/laus/laumstrk.htm. Lowest state rate in the country.

[2] https://www.bls.gov/opub/ted/2022/louisiana-had-a-13-3-percent-increase-in-job-openings-in-october-2022.htm
https://www.bls.gov/eag/eag.nd.htm#eag_nd.f.1
(36,000/8,850=4.06)

[3] Labor force: all people age 16 and older who are classified as either employed and unemployed (i.e. either working or actively looking for work).

housing prices. Wage and salary levels and purchasing power also matter. The weight each person places on these factors will vary significantly. But what businesses require to remain open, and what every family needs to stay in their home, is money. Thus, tax policies come into play.

States do not institute tax policy in a vacuum. Every change to a state's tax system makes its business tax climate more or less competitive compared to other states and makes the state more or less attractive to individuals and families. Until Arizona converted its individual income tax to a flat rate of 2.5 percent on January 1, North Dakota had the lowest top marginal individual income tax rate among states that levied the tax. If HB 1158 passes, North Dakota would again have the lowest individual income tax rate at 1.5 percent.

The challenge here is that states in the region and across the country that directly compete with North Dakota forgo at least one major tax, often the individual income tax, and thus effectively have a top marginal rate of 0 percent. Alaska, South Dakota, Texas, and Wyoming—which tend to have robust energy and natural resource industries, like North Dakota—are among the states that do not levy an individual income tax. South Dakota and Wyoming also forgo a corporate income tax while Montana goes without a sales tax. That North Dakota currently has a top rate of 2.9 percent, modest as it is, may be enough to dissuade some who would otherwise pay nothing and file no return in a state that does not assess an income tax.

Although everyone puts a different emphasis on the importance various tax policies play, tax policies *do* affect how much discretionary income a business owner has to hire another employee. Tax policies *do* affect how much income an individual has to purchase a new appliance or to save for a home. At some point, taxes *do* matter, and it is that marginal impact that matters in North Dakota.

Reducing the individual income tax would improve the state's tax neutrality and lower barriers to productivity on the margin. As workers and small business owners consider the impact of taxation on their next dollar of income, they implicitly consider the extensive and intensive effects of taxation--*whether* to work or invest and *how much* to work or invest. A lower, flatter income tax rate sets conditions for in-migration and an increase in the labor force in North Dakota. Reducing the top rate will also impact the amount of work people choose to perform. When workers can take more of their next dollar home, it will, on the margin, incentivize those already employed to work an additional term (an extra hour or week, or perhaps full time vs. part time).

Income tax reduction is good for economic growth, because tax rates influence how much people work; and all things being equal, it makes a difference in where people choose to live. But while competitive rates are an important reason for this growth, they are not the only reason. If North Dakota moves forward with the reforms of HB 1158, budget sustainability will continue to play an important role in realizing the full potential of the bill's structural alterations.

Policymakers in many states have contemplated the total repeal of the individual income tax, and while that may stimulate economic activity that does not mean it is the right or responsible decision for every state. Having said that, it may end up being the right decision for North Dakota. First, North Dakota does not rely on the individual income tax to the extent that some states do. In fiscal year 2019, the individual income tax only generated 6.2 percent of the state's total tax collection.[4] Second, the top marginal rate is already low enough that eventual repeal is within sight. The potential challenge is budget sustainability.

The wrong timing or wrong combination of revenue reductions or spending restrictions could make service delivery especially challenging. North Dakota policymakers have wisely avoided inadvertently fashioning unfunded liabilities with past reforms by making incremental changes and assessing the sustainability of future reforms each biennium. The current proposal comes at a time when many economists suggest that a recession is still possible sometime in 2023, which could pose a concern for many states' budgets. While that is not a concern to be dismissed out of hand, we find that to be less threatening in this case as the current bill does not include a total repeal and the state is in a healthy financial position with over $3.5 billion in savings and surplus expected by the end of the current budget biennium.[5]

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[4] https://taxfoundation.org/publications/facts-and-figures Facts and Figures, Table 7.
[5] https://www.kxnet.com/news/state-news/north-dakotas-68th-legislative-assembly-kicks-off/

If the intent is to eliminate or repeal the individual income tax in a future biennium, the feasibility of that legislation may depend on the structure put in place this year. While the current bill exempts the first nearly $45,000 of taxable income for singles and nearly $75,000 for married filers, doing so may actually make getting to zero harder in the future. First, the narrower the tax base, the fewer people future reforms directly benefit. Additionally, if it turns out that the state becomes reliant on the revenue generated by the remaining income payers, it will be even harder to responsibly eliminate the tax. The longer the tax is levied on a narrow base, the harder it is to generate interest in repeal. Lastly, it is likely many of the skilled workers, including tradesmen and those who own trade businesses, many of those that this bill intends to attract, will earn more income than this legislation exempts. In that case a nominal income tax liability will remain for those taxpayers this biennium. In our view, a simpler, more neutral reform that would also generate the greatest possibility for future elimination of the income tax would be to create a truly flat tax that applies to the current base at the lowest rate that is sustainable for the state.

Many factors influence the location decisions of individuals and families, workers and employers. Many aspects of these decisions, including family ties and weather, transcend government control, but the individual income tax is one that policymakers *can* affect. A lower, flatter rate will improve the tax neutrality of North Dakota and is likely to yield improvements to the labor force and labor force participation.

Thank you again for the opportunity to testify today. I'm happy to answer any questions you may have.

#24292

Complaining about a problem without proposing a solution is called whining.
-Teddy Roosevelt

Roughrider
POLICY CENTER

Bette B. Grande
President & CEO

March 13, 2023

House Bill 1158 HB 1425 - Senate Finance and Taxation Committee

Chairman Kannianen and members of the Senate Finance and Taxation Committee:

My name is Bette Grande and I am CEO of Roughrider Policy Center, thank you for the opportunity to speak to you about HB 1158 and 1425. Moving to the lowest flat tax in the country is the right move for North Dakota. This tax reform will benefit families and small businesses and will help attract and retain the workforce we need for our growing economy.

I served on the Finance and Tax Committee for several sessions and reducing income tax rates was always a priority. Steady progress was made over the years. HB 1158 and 1425 is a strong commitment to the people of North Dakota.

Individuals and small business owners will benefit greatly from a simpler, fairer, and flatter tax code. This is a move in the right direction and will reduce the use of income tax credits that too often amount to picking winners and losers. Eliminating state income tax for 60% of us and having a low 1.5% flat tax for the rest will help families struggling with inflation and help our economy. The majority of businesses in North Dakota are pass-through entities and HB 1158 will help small businesses grow and compete.

North Dakota has a lot to offer with our quality of life, jobs, and economic opportunity. Our population continues to grow and as our people thrive it will put our state in the position to eliminate the personal income tax completely.

When serving on Fin/Tax Committee we often heard about the '3-legged stool' but a lot of states - states we compete with for workers and businesses – have eliminated personal income taxes. We have a strong business sector and are blessed with natural resources and the tired old 3-legged stool is holding our state back. It is time to stand on two feet and do what is right for the taxpayers in North Dakota by flattening and streamlining our tax laws.

It is never a bad thing when people keep more of their own money.

For Liberty,

Bette Grande

Roughrider Policy Center
North Dakota's Think Tank
https://www.roughriderpolicy.org/
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2021 Comparison View

1.99% Flat Tax Rate with $800 and $1600 Tax Relief Credit (HB 1118)

Comparison By Bracket Level

Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and $350 and $700 Tax Relief Credit	Net Tax Liability 1.99% Flat Rate with $800 and $1600 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$20,301,117	$15,685,830	$4,615,287	2.8%	$8
2	2.04%	108,325	180,550	248,824	$163,599,388	$140,313,858	$23,285,530	14.2%	$94
3	2.27%	225,975	275,100	52,901	$101,598,530	$93,041,063	$8,557,467	5.2%	$162
4	2.64%	491,350	491,350	27,090	$97,749,568	$83,189,481	$14,560,087	8.9%	$537
5	2.90%			28,907	$356,568,674	$243,694,266	$112,874,408	68.9%	$3,905
Total				916,116	$739,817,277	$575,924,498	$163,892,779	100.0%	$179

$750 and $1500 Tax Relief Credit (original HB 1118)

Comparison By Bracket Level

Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and $350 and $700 Tax Relief Credit	Net Tax Liability with $750 and $1500 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$20,301,117	$7,584,951	$12,716,166	8.9%	$23
2	2.04%	108,325	180,550	248,824	$163,599,388	$69,232,813	$94,366,575	65.7%	$379
3	2.27%	225,975	275,100	52,901	$101,598,530	$80,452,171	$21,146,359	14.7%	$400
4	2.64%	491,350	491,350	27,090	$97,749,568	$88,216,150	$9,533,418	6.6%	$352
5	2.90%			28,907	$356,568,674	$350,733,356	$5,835,318	4.1%	$202
Total				916,116	$739,817,277	$596,219,441	$143,597,836	100.0%	$157

0% and 1.50% Flat Tax Rate (HB 1158)

Comparison By Bracket Level

Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and $350 and $700 Tax Relief Credit	Net Tax Liability 1.50% Flat Rate	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$20,301,117	$0	$20,301,117	5.8%	$36
2	2.04%	108,325	180,550	248,824	$163,599,388	$92,617,096	$70,982,292	20.4%	$285
3	2.27%	225,975	275,100	52,901	$101,598,530	$66,381,772	$35,216,758	10.1%	$666
4	2.64%	491,350	491,350	27,090	$97,749,568	$60,258,417	$37,491,151	10.8%	$1,384
5	2.90%			28,907	$356,568,674	$173,439,571	$183,129,103	52.8%	$6,335
Total				916,116	$739,817,277	$392,696,856	$347,120,421	100.0%	$379

$1000 and $2000 Tax Relief Credit (No Rate Changes)

Comparison By Bracket Level

Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and $350 and $700 Tax Relief Credit	Net Tax Liability with $750 and $1500 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$20,301,117	$7,584,701	$12,716,416	6.5%	$23
2	2.04%	108,325	180,550	248,824	$163,599,388	$40,188,618	$123,410,770	63.2%	$496
3	2.27%	225,975	275,100	52,901	$101,598,530	$67,401,783	$34,196,747	17.5%	$646
4	2.64%	491,350	491,350	27,090	$97,749,568	$82,316,131	$15,433,437	7.9%	$570
5	2.90%			28,907	$356,568,674	$347,097,176	$9,471,498	4.9%	$328
Total				916,116	$739,817,277	$544,588,409	$195,228,868	100.0%	$213

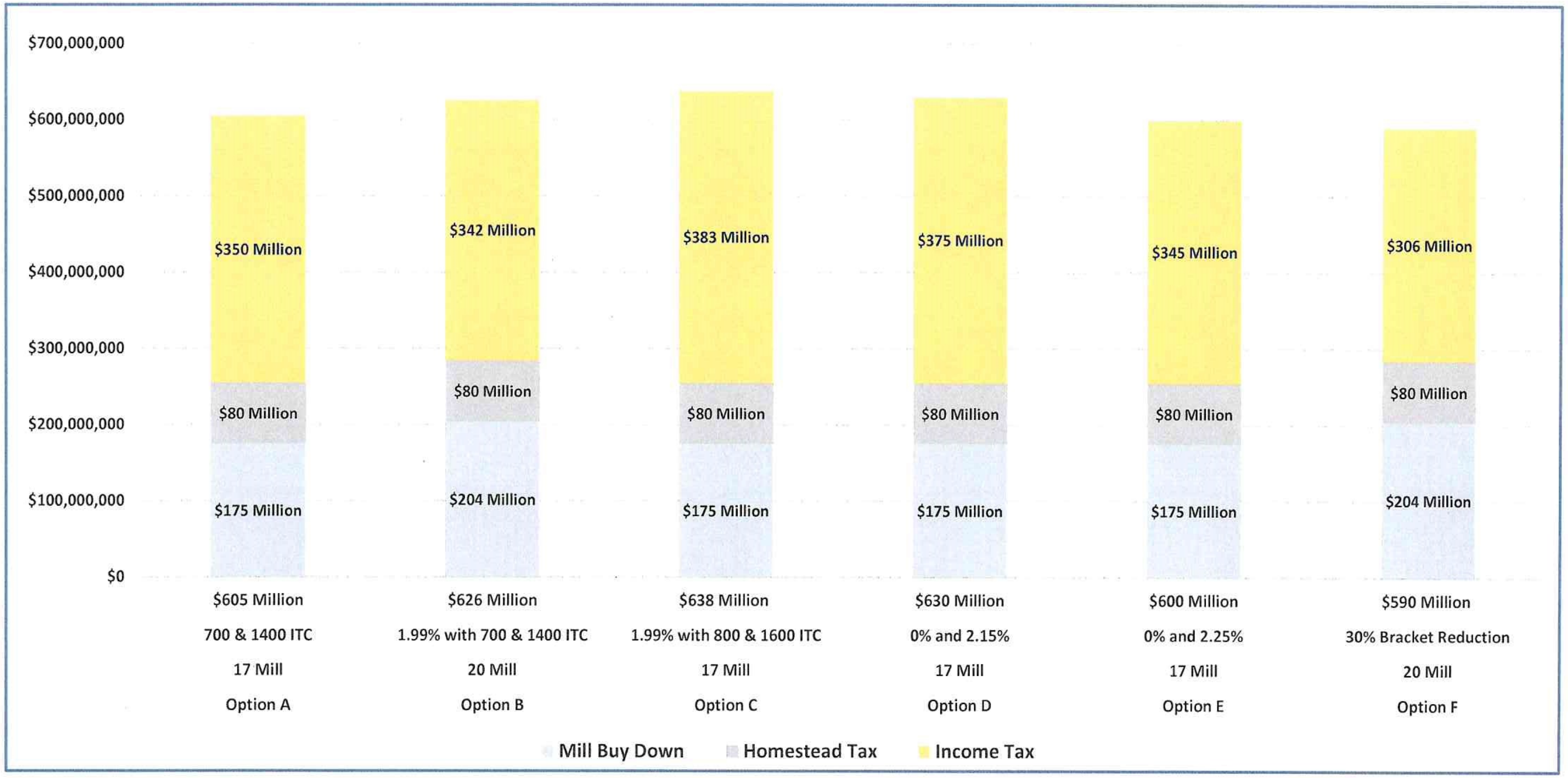
Fiscal Note View

1.99% Flat Tax Rate with $800 and $1600 Tax Relief Credit (HB 1118)									
Comparison By Bracket Level									
Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and no Tax Relief Credit	Net Tax Liability 1.99% Flat Rate with $800 and $1600 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$104,234,938	$15,685,830	$88,549,108	23.1%	$159
2	2.04%	108,325	180,550	248,824	$267,016,822	$140,313,858	$126,702,964	33.1%	$509
3	2.27%	225,975	275,100	52,901	$120,131,628	$93,041,063	$27,090,565	7.1%	$512
4	2.64%	491,350	491,350	27,090	$106,078,279	$83,189,481	$22,888,798	6.0%	$845
5	2.90%			28,907	$361,641,189	$243,694,266	$117,946,923	30.8%	$4,080
Total				916,116	$959,102,856	$575,924,498	$383,178,358	100.0%	$418

$750 and $1500 Tax Relief Credit (original HB 1118)									
Comparison By Bracket Level									
Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and no Tax Relief Credit	Net Tax Liability with $750 and $1500 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$104,234,938	$7,584,951	$96,649,987	26.6%	$173
2	2.04%	108,325	180,550	248,824	$267,016,822	$69,232,813	$197,784,009	54.5%	$795
3	2.27%	225,975	275,100	52,901	$120,131,628	$80,452,171	$39,679,457	10.9%	$750
4	2.64%	491,350	491,350	27,090	$106,078,279	$88,216,150	$17,862,129	4.9%	$659
5	2.90%			28,907	$361,641,189	$350,733,356	$10,907,833	3.0%	$377
Total				916,116	$959,102,856	$596,219,441	$362,883,415	100.0%	$396

0% and 1.50% Flat Tax Rate (HB 1158)									
Comparison By Bracket Level									
Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and no Tax Relief Credit	Net Tax Liability 1.50% Flat Rate	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$104,234,938	$0	$104,234,938	18.4%	$187
2	2.04%	108,325	180,550	248,824	$267,016,822	$92,617,096	$174,399,726	30.8%	$701
3	2.27%	225,975	275,100	52,901	$120,131,628	$66,381,772	$53,749,856	9.5%	$1,016
4	2.64%	491,350	491,350	27,090	$106,078,279	$60,258,417	$45,819,862	8.1%	$1,691
5	2.90%			28,907	$361,641,189	$173,439,571	$188,201,618	33.2%	$6,511
Total				916,116	$959,102,856	$392,696,856	$566,406,000	100.0%	$618

$1000 and $2000 Tax Relief Credit (No Rate Changes)									
Comparison By Bracket Level									
Bracket Level	%	Single	Married Joint	Number of Returns	Net Tax Liability with original Tax Rates and no Tax Relief Credit	Net Tax Liability with $1000 and $2000 Tax Relief Credit	Taxpayer Savings	Percentage Of Savings	Average Savings Per Return
1	1.10%	44,725	74,750	558,394	$104,234,938	$7,584,701	$96,650,237	23.3%	$173
2	2.04%	108,325	180,550	248,824	$267,016,822	$40,188,618	$226,828,204	54.7%	$912
3	2.27%	225,975	275,100	52,901	$120,131,628	$67,401,783	$52,729,845	12.7%	$997
4	2.64%	491,350	491,350	27,090	$106,078,279	$82,316,131	$23,762,148	5.7%	$877
5	2.90%			28,907	$361,641,189	$347,097,176	$14,544,013	3.5%	$503
Total				916,116	$959,102,856	$544,588,409	$414,514,447	100.0%	$452



	Option A	Option B	Option C	Option D	Option E	Option F
	17 Mill 700 & 1400 ITC	20 Mill 1.99% with 700 & 1400 ITC	17 Mill 1.99% with 800 & 1600 ITC	17 Mill 0% and 2.15%	17 Mill 0% and 2.25%	20 Mill 30% Bracket Reduction
Package Price	**$605 Million**	**$626 Million**	**$638 Million**	**$630 Million**	**$600 Million**	**$590 Million**
Mill Buy Down	$175 Million	$204 Million	$175 Million	$175 Million	$175 Million	$204 Million
Homestead Tax	$80 Million	$80 Million	$80 Million	$80 Million	$80 Million	$80 Million
Income Tax	$350 Million	$342 Million	$383 Million	$375 Million	$345 Million	$306 Million

3/20/2023

Individual Income Tax Plan Comparisons

Fiscal Note Projection (without 2021 HB 1515)

Bracket Overview				
Bracket Level	**Tax Rate**	**Single**	**Married Joint**	**Number of Returns**
1	1.10%	$44,725	$74,750	558,394
2	2.04%	$108,325	$180,500	248,824
3	2.27%	$225,975	$275,100	52,901
4	2.64%	$491,350	$491,350	27,090
5	2.90%			28,907
			Total	**916,116**

Option A

$700 and $1400 Tax Relief Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$96,649,737	27.6%	$173
2	$189,542,349	54.1%	$762
3	$37,061,709	10.6%	$701
4	$16,677,707	4.8%	$616
5	$10,181,483	2.9%	$352
Total	**$350,112,985**	**100.0%**	**$382**

Option B

1.99% Flat Tax Rate with $700 and $1400 Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$85,167,484	24.9%	$153
2	$97,893,341	28.6%	$393
3	$21,802,249	6.4%	$412
4	$20,534,644	6.0%	$758
5	$116,524,631	34.1%	$4,031
Total	**$341,922,349**	**100.0%**	**$373**

Option C

1.99% Flat Tax Rate with $800 and $1600 Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$88,549,108	23.1%	$159
2	$126,702,964	33.1%	$509
3	$27,090,565	7.1%	$512
4	$22,888,798	6.0%	$845
5	$117,946,923	30.8%	$4,080
Total	**$383,178,358**	**100.0%**	**$418**

Option D

0% First Bracket - 2.15% Flat Rate (No Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$104,234,938	27.8%	$187
2	$131,765,228	35.2%	$530
3	$23,663,058	6.3%	$447
4	$18,115,448	4.8%	$669
5	$96,684,926	25.8%	$3,345
Total	**$374,463,598**	**100.0%**	**$409**

Option E

0% First Bracket - 2.25% Flat Rate (No Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$104,234,938	30.3%	$187
2	$125,180,938	36.3%	$503
3	$19,002,688	5.5%	$359
4	$13,801,653	4.0%	$509
5	$82,291,974	23.9%	$2,847
Total	**$344,512,191**	**100.0%**	**$376**

Option F

30% Rate Reduction (No Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$31,407,291	10.3%	$56
2	$82,075,262	26.8%	$330
3	$37,059,140	12.1%	$701
4	$33,086,213	10.8%	$1,221
5	$122,199,802	40.0%	$4,227
Total	**$305,827,708**	**100.0%**	**$334**

3/20/2023

Individual Income Tax Plan Comparisons

Fiscal Note Projection (with 2021 HB 1515)

Bracket Level	Tax Rate	Single	Married Joint	Number of Returns
1	1.10%	$44,725	$74,750	558,394
2	2.04%	$108,325	$180,500	248,824
3	2.27%	$225,975	$275,100	52,901
4	2.64%	$491,350	$491,350	27,090
5	2.90%			28,907
			Total	**916,116**

Option A
$700 and $1400 Tax Relief Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$5,612,771	4.5%	$10
2	$85,910,244	69.6%	$345
3	$18,469,835	15.0%	$349
4	$8,320,882	6.7%	$307
5	$5,088,660	4.1%	$176
Total	**$123,402,392**	**100.0%**	**$135**

Option D
0% First Bracket - 2.15% Flat Rate (No Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$13,197,972	8.9%	$24
2	$28,133,123	19.0%	$113
3	$5,071,184	3.4%	$96
4	$9,758,623	6.6%	$360
5	$91,592,103	62.0%	$3,169
Total	**$147,753,005**	**100.0%**	**$161**

Option B
1.99% Flat Tax Rate with $700 and $1400 Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	-$5,869,482	-5.1%	-$11
2	-$5,738,764	-5.0%	-$23
3	$3,210,375	2.8%	$61
4	$12,177,819	10.6%	$450
5	$111,431,808	96.7%	$3,855
Total	**$115,211,756**	**100.0%**	**$126**

Option E
0% First Bracket - 2.25% Flat Rate (No New Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	$13,197,972	11.2%	$24
2	$21,548,833	18.3%	$84
3	$410,814	0.3%	$8
4	$5,444,828	4.6%	$201
5	$77,199,151	65.5%	$2,671
Total	**$117,801,598**	**100.0%**	**$129**

Option C
1.99% Flat Tax Rate with $800 and $1600 Credit

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	-$2,487,858	-1.6%	-$4
2	$23,070,859	14.7%	$93
3	$8,498,691	5.4%	$161
4	$14,531,973	9.3%	$536
5	$112,854,100	72.1%	$3,904
Total	**$156,467,765**	**100.0%**	**$171**

Option F
30% Rate Reduction (No Credits)

Bracket Level	Taxpayer Savings	% Savings	Savings / Return
1	-$59,629,675	-75.4%	-$107
2	-$21,556,843	-27.2%	-$87
3	$18,467,266	23.3%	$349
4	$24,729,388	31.3%	$913
5	$117,106,979	148.0%	$4,051
Total	**$79,117,115**	**100.0%**	**$86**

3/20/2023

Individual Income Tax Plan Scenarios

(As requested by Senate Finance and Tax Committee –
Used in conjunction with mill buydown and homestead tax credit expansion)

Option A **$350 Million**	• **$700** and **$1,400** Income tax credit (ITC) • Same principle as 2021 Special Session HB 1515 • Sunsets after tax years 2023 and 2024 • Only resident filers are eligible to receive the ITC
Option B **$342 Million**	• **1.99%** Flat tax rate – Across all brackets (1 through 5) • **$700** and **$1,400** Income tax credit • Only resident filers are eligible to receive the ITC
Option C **$383 Million**	• **1.99%** Flat tax rate – Across all brackets (1 through 5) • **$700** and **$1,400** Income tax credit • Only resident filers are eligible to receive the ITC
Option D **$375 Million**	• First bracket is **0%** • **2.15%** Flat tax for remaining tax brackets (2 through 5) • No Income tax credit
Option E **$345 Million**	• First bracket is **0%** • **2.25%** Flat tax for remaining tax brackets (2 through 5) • No income tax credit
Option F **$306 Million**	• **30%** Rate reduction across all brackets (1 through 5) • No income tax credit

3/19/2023

School Mill Buydown and Homestead Tax Credit Bill Proposals
(Used in conjunction with individual income tax plan scenarios)

SB 2136 Relating to Homestead Credit

- The current income bracket formula is eliminated - applicants with less than $100,000 in income qualify.
- Eliminates $500,000 asset limit.
- By February first of a current taxable year, the person is eligible for the full exemption.
- After February first of a current taxable year and no later than November fifth, the person is eligible to receive a pro-rated portion of the exemption - changes local authority's ability to prorate exemptions from discretionary to required.
- Maximum reduction increases from $5,000 to $9,000 of taxable value.
  - Note: A $200,000 home is equal to $9,000 in taxable value.

SB 2066 School Mill Buy-Down

- Lowers the school mill levy portion paid by property owners.
- Includes a state funded portion.
- Covers commercial, residential, agricultural, and centrally assessed properties.

- Residential Taxpayer Impact:
  - $300,000 home x 50% = $150,000 x 9% = 13,500 taxable value x **30 mills** = an estimated **$405 reduction** on their tax statement.
  - $300,000 home x 50% = $150,000 x 9% = 13,500 x **20 mills** = an estimated **$270 reduction** on their tax statement.
  - $300,000 home x 50% = $150,000 x 9% = 13,500 x **17 mills** = an estimated **$230 reduction** on their tax statement.

  - $250,000 home x 50% = $125,000 x 9% = 11,250 taxable value x **30 mills** = an estimated **$338 reduction** on their tax statement.
  - $250,000 home x 50% = $125,000 x 9% = 11,250 x **20 mills** = an estimated **$226 reduction** on their tax statement.
  - $250,000 home x 50% = $125,000 x .9% = 11,250 x **17 mills**= an estimated **$191 reduction** on their tax statement.

3/19/2023

House Bill 1158

ND State Senate

Sub: Testimony in support of HB 1158

Date 3/20/2023

My Name is Y. A., shortening it for a reason. I'm a Ph.D. in Electrical Engineering and a Sr Electrical Engineer with Excel Energy in Renewable Energy. I'm also a US Army ROTC Cadet in the US Army Corps of Engineers. My testimony is for HB 1158 since it's the main reason I recently moved from MN to ND state and became an ND resident.

I want to highlight a couple points why I'm supporting this bill:

- Even though I support the 80 million for the senior's property tax relief, I'm not in favor of the property tax for the public at the expense of the income tax relief. The reasons are
    - First not all ND residents own a house, almost half of the ND residents who are renting houses/apartments will see no impact at all, and that's unfair to them.
    - The more income relief we ND residents will have, the easier we can save up and pay the property taxes we owe.
    - The property tax relief does not and will not help in solving the problem of filling in job vacancies. Let's be clear on this, ND's cold weather is not tempting for a lot of people to move to the state, but low-income tax will be a factor in making this decision.
- The senate committee is not considering the extra income that the ND government will earn from the people moving to the state especially from MN since there is a reciprocity deal between the two states.
    - I work two full-time jobs, and I get paid more than any ND state senator, representative, or even the Governor.
    - With the 1.5% tax burden, I will still be liable to pay about $6000 a year.
    - That's more than X6 average ND residents' taxpayers.
    - Once the bill becomes law, more people will follow suit.

With this, I would add my voice to the ND State Governor, Rep Headland, and the ND House in supporting this bill.

23.0351.02000

Sixty-eighth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENT TO HOUSE BILL NO. 1158

Introduced by

(INCLUDES SB 2066)

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL for an Act to amend and reenact 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, and subdivision c of subsection 1 of section 57-20-07.1, 57-38-30.3 of the North Dakota Century Code, relating to the determination of state aid payments, information displayed on property tax statements, school district levy authority, and a credit against payments in lieu of taxes paid by centrally assessed companies, the imposition of a flat income tax rate of one and one-half percent for individuals estates, and trusts; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 2. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.
2. For purposes of this section:

a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year;

b. "Budget year" means the taxing district's year for which the levy is being determined under this section;

c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property; and

d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08; and

e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

~~c.~~ Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one~~

~~hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.
5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:
   a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.
   b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

~~6. A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

7. Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 3. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.
   a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a

majority of the qualified electors voting upon the question at any regular or special school district election.

b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

e. For taxable years beginning after 2012:

    1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

    2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

    3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~fifty mills on the dollar of the taxable valuation of

residential, agricultural, and commercial property in the school district and seventy mills on the dollar of taxable valuation of centrally assessed property in the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under section 57-15-01.1 or this section.

SECTION 4. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable aluation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6. Nothing in this section limits the board of a school district from levying:~~

~~a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~School district levies. (Effective for taxable years beginning after December 31, 2024)~~

1. a. The board of a school district may levy a tax ~~not exceeding~~for the school district's local contribution to the costs of education which may not exceed the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of seventy:

   1) Forty mills on the taxable valuation of residential, agricultural, and commercial property in the district, ~~for any purpose related to the provision of educational services~~. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter.

   2) Sixty mills on the taxable valuation of centrally assessed property in the district.

   b. The proceeds of this levy must be deposited into the school district's general fund and may be used in ~~accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15.

The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.
7. Nothing in this section limits the board of a school district from levying:
    a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and
    b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 5. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. ~~Provide~~For tax statements to be mailed to an owner of a residential, agricultural, or commercial parcel of land, provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1 27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year ~~plus the number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located~~ the lesser of:

(a~~)~~ ~~Fifty~~Seventy mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~forty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 6. AMENDMENT. Subsection 1 of the section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the

tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the ~~rates in the applicable~~ rate ~~schedule~~ in subdivisions a through d corresponding to an individual's filing status used for federal income tax purpose. ~~For~~The tax for an estate or trust, ~~the schedule~~ is equal to North Dakota taxable income multiplied by the rate in subdivision e ~~must be used for purposes of this subsection~~. The tax to be computed for:

a. Single, other than head of the household or surviving ~~spouse~~qualifying widow or widower is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars.

If North Dakota taxable income is:

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10% $0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

b. Married filing jointly and ~~surviving spouse~~qualifying widow or widower is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.64%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

c. Married filing separately is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $31,300~~	~~1.10%~~	~~$0~~	
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

d. Head of household is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $50,200~~	~~1.10%~~	~~$0~~	
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.47%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.9%~~	~~$411,500~~

e. Estates and trusts is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding three thousand dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $2,500~~	~~1.10%~~	~~$0~~	
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04% 2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27% $5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.905~~	~~$12,300~~

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and
2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new ~~rate schedules~~rates that apply in lieu of the ~~schedules~~rates set forth in subdivisions a through e. The new ~~schedules~~rates must be determined by increasing the ~~minimum and maximum~~North Dakota taxable income threshold dollar amounts for each ~~income bracket for which a tax is imposed~~ by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable ~~to each income bracket~~ may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 7. EFFECTIVE DATE. Sections 2, 3, 4, and 6 of this Act are effective for taxable years beginning after December 31, 2022.

23.0351.02000

Sixty-eighth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENT TO HOUSE BILL NO. 1158

Introduced by **(INCLUDES SB 2136 HOMESTEAD CREDIT)**

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL for an Act to amend and reenact subsection 1 of section 57-02-081 of the North Dakota Century Code, relating to the homestead tax credit; to provide an appropriation; and to provide an effective date; 57-38-30.3 of the North Dakota Century Code, relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivisions c is entitled to receive a reduction in the assessment on the taxable value on the person's homestead. An exemption under this subsection applies regardless of whether the person is head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside int eh homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

   (1) If the person's income is not in excess of fifty thousand dollars, the exemption must be determined as a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of nine thousand dollars of taxable valuation.

   (2) If the person's income is in excess fifty thousand dollars and not in excess of seventy-five thousand dollars, a reduction of fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of nine thousand dollars of taxable valuation.

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spoused or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

i. A person who is eligible for an exemption under this subsection is eligible to receive a full or partial exemption under this subsection based on the date of submission of the verified statement of facts required under subdivision f. If the person submits the verified statement of facts:

(1) By February first of the current taxable year, the person is eligible for the full exemption under this subsection.

(2) After February first of the current taxable year and no later than November fifth of the current taxable year, the person is eligible to receive a pro rata share of the exemption under this subsection. To claim a pro rata share of the exemption under this subsection, the person shall submit verified statement of facts by the fifth day of the month preceding the first full month of the prorated exemption. The tax commissioner shall calculate the pro rata share of the exemption based on the number of months remaining in the taxable year, beginning the month after the verified statement of facts is timely submitted.

SECTION 2. APPROPRIATION – STRATEGIC INVESTMENT AND IMPROVEMENTS FUND – HOMESTEAD TAX CREDIT PROGRAM. There is appropriated out of any moneys in the strategic investment and improvements 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.

SECTION 3. AMENDMENT. Subsection 1 of the section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the ~~rates in the applicable~~ rate ~~schedule~~ in subdivisions a through d corresponding to an individual's filing status used for federal income tax purpose. ~~For~~The tax for an estate or trust, ~~the schedule~~ is equal to North Dakota taxable income multiplied by the rate in subdivision e ~~must be used for purposes of this subsection~~. The tax to be computed for:

    a. Single, other than head of the household or surviving ~~spouse~~qualifying widow or widower is one and one-half percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars.

    If North Dakota taxable income is:

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10% $0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

    b. Married filing jointly and ~~surviving spouse~~qualifying widow or widower is one and one-half percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars.

    ~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.64%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~

~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

c. Married filing separately is <u>one and one-half percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars.</u>

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

d. Head of household <u>is one and one-half percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars.</u>

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.47%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.9%~~	~~$411,500~~

e. Estates and trusts <u>is one and one-half percent of North Dakota taxable income exceeding three thousand dollars.</u>

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$2,500~~	~~1.10%~~	~~$0~~
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04% 2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27% $5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.905~~	~~$12,300~~

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new ~~rate schedules~~rates that apply in lieu of the ~~schedules~~rates set forth in subdivisions a through e. The new ~~schedules~~rates must be determined by increasing the ~~minimum and maximum~~North Dakota taxable income threshold dollar amounts for each ~~income bracket for which a tax is imposed~~ by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable ~~to each income bracket~~ may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 4. EFFECTIVE DATE. Sections 1 and 3 of this Act are effective for taxable years beginning after December 31, 2022.

23.0351.02000

Sixty-eighth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENT TO HOUSE BILL NO. 1158

Introduced by

(ZEROS BOTTOM BRACKET AND INCREASES TO 2.25%)

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL for an Act to amend and reenact subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the imposition of a flat income tax rate of ~~one and one-half~~two and one-quarter percent for individuals, estates, and trusts; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 1 of the section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the ~~rates in the applicable~~ rate ~~schedule~~ in subdivisions a through d corresponding to an individual's filing status used for federal income tax purpose. ~~For~~The tax for an estate or trust, ~~the schedule~~ is equal to North Dakota taxable income multiplied by the rate in subdivision e ~~must be used for purposes of this subsection~~. The tax to be computed for:

   a. Single, other than head of the household or ~~surviving spouse~~qualifying widow or widower is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars.

      If North Dakota taxable income is:

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10% $0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

b. Married filing jointly and ~~surviving spouse~~qualifying widow or widower is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.64%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

c. Married filing separately is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $31,300~~	~~1.10%~~	~~$0~~	
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

d. Head of household is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $50,200~~	~~1.10%~~	~~$0~~	
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.47%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~

~~$411,500~~		~~$9,317.20 + 2.9%~~	~~$411,500~~

e. Estates and trusts is ~~one and one-half~~two and one-quarter percent of North Dakota taxable income exceeding three thousand dollars.

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $2,500~~	~~1.10%~~	~~$0~~	
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04% 2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27% $5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.905~~	~~$12,300~~

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

   1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and
   2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

   In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new ~~rate schedules~~rates that apply in lieu of the ~~schedules~~rates set forth in subdivisions a through e. The new ~~schedules~~rates must be determined by increasing the ~~minimum and maximum~~North Dakota taxable income threshold dollar amounts for each ~~income bracket for which a tax is imposed~~ by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable ~~to each income bracket~~ may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 2. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2022.

Hettinger Co

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066	
1	Taxable Value	14,618,233	825,140	15,443,373	15,443,373	
2	70 GF Mill Levy	1,023,276	57,760	1,081,036	1,081,036	
				-		
3	Total	1,023,276	57,760	1,081,036	1,081,036	
4	Mill Rate	70	70	70	70	

Tax Year 2023

		Local Assd	Centr Assd	Total		
5	Taxable Value	15,080,169	888,511	15,968,680	15,968,680	
6	40 mills X **2022** TV	584,729		584,729	1,117,808	
7	60 mills X CA		53,311	53,311		
8	10 mills X Local & Centr Assd	150,802	8,885	159,687		
9	Total	735,531	62,196	797,727	1,117,808	
10	Mill Rate	48.77	70	49.96	70	

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	15,396,853	918,632	16,315,485	16,315,485	
12	40 Mills (Max 5% Increase)	597,009		597,009	1,142,084	2.10%
13	60 mills X CA		55,118	55,118		
14	10 mills X Local & Centr Assd	153,969	9,186	163,155		
15	Total	750,977	64,304	815,281	1,142,084	
16	Mill Rate	48.77	70	49.97	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	15,181,297	1,032,175	16,213,472	16,213,472	
18	40 Mills (Max 5% Increase)	597,009		597,009	1,142,084	0.00%
19	60 mills X CA		61,931	61,931		
20	10 mills X Local & Centr Assd	151,813	10,322	162,135		
21	Total	748,822	72,252	821,074	1,142,084	
22	Mill Rate	49.33	70	50.64	70.44	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	15,981,351	1,100,815	17,082,166	17,082,166	
24	40 Mills (Max 5% Increase)	626,859		626,859	1,195,752	5.00%
25	60 mills X CA		66,049	66,049		
26	10 mills X Local & Centr Assd	159,814	11,008	170,822		
27	Total	786,673	77,057	863,730	1,195,752	
28	Mill Rate	49.22	70	50.56	70	

	Hettinger Co	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	13,392,406.00		521,877.00		13,914,283.00	
A2	2017	13,816,201.00	3.16%	561,932.00	7.68%	14,378,133.00	3.33%
A3	2018	14,106,679.00	2.10%	580,966.00	3.39%	14,687,645.00	2.15%
A4	2019	13,908,775.00	-1.40%	652,775.00	12.36%	14,561,550.00	-0.86%
A5	2020	14,642,086.00	5.27%	696,170.00	6.65%	15,338,256.00	5.33%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	14,618,233.00		825,140.00		15,443,373.00		70
B2	2023	15,080,169.00	3.16%	888,511.00	7.68%	15,968,680.00	3.40%	
B3	2024	15,396,853.00	2.10%	918,632.00	3.39%	16,315,485.00	2.17%	
B4	2025	15,181,297.00	-1.40%	1,032,175.00	12.36%	16,213,472.00	-0.63%	
B5	2026	15,981,351.00	5.27%	1,100,815.00	6.65%	17,082,166.00	5.36%	

Hettinger Co

Funding Formula Increase

4%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	3,633,418	308,123	922,407	2,402,888
C2	2023-24	3,778,755	308,123	926,602	2,544,029
C3	2024-25	3,929,905	308,123	958,121	2,663,661
C4	2025-26	4,087,101	308,123	978,929	2,800,049
C5	2026-27	4,250,585	308,123	972,808	2,969,654

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	3,633,418	308,123	922,407	2,402,888
D2	2023-24	3,778,755	308,123	642,489	2,828,143
D3	2024-25	3,929,905	308,123	638,040	2,983,742
D4	2025-26	4,087,101	308,123	652,127	3,126,851
D5	2026-27	4,250,585	308,123	658,939	3,283,523

McKenzie County

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	141,288,868	141,288,868	282,577,736	282,577,736
2	46.13 GF Mill Levy	6,517,655	6,517,655	13,035,311	13,035,311
				-	
3	Total	6,517,655	6,517,655	13,035,311	13,035,311
4	Mill Rate	46.13	46.13	46.13	46.13

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	194,187,420	218,757,554	412,944,974	412,944,974
6	40 mills X **2022** TV	5,651,555		5,651,555	14,599,548
7	60 mills X CA		13,125,453	13,125,453	
8	10 mills X Local & Centr Assd	1,941,874	2,187,576	4,129,450	
9	Total	7,593,429	15,313,029	22,906,458	14,599,548
10	Mill Rate	39.1	70	55.47	35.35

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	189,565,759	219,829,466	409,395,225	409,395,225	
12	40 Mills (Max 5% Increase)	5,651,555		5,651,555	16,351,494	0.00%
13	60 mills X CA		13,189,768	13,189,768		
14	10 mills X Local & Centr Assd	1,895,658	2,198,295	4,093,952		
15	Total	7,547,212	15,388,063	22,935,275	16,351,494	
16	Mill Rate	39.81	70	56.02	39.94	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	222,417,505	264,762,609	487,180,114	487,180,114	
18	40 Mills (Max 5% Increase)	5,934,132		5,934,132	18,313,673	5.00%
19	60 mills X CA		15,885,757	15,885,757		
20	10 mills X Local & Centr Assd	2,224,175	2,647,626	4,871,801		
21	Total	8,158,308	18,533,383	26,691,690	18,313,673	
22	Mill Rate	36.68	70	54.79	37.59	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	276,175,816	302,226,518	578,402,334	578,402,334	
24	40 Mills (Max 5% Increase)	6,230,839		6,230,839	20,511,314	5.00%
25	60 mills X CA		18,133,591	18,133,591		
26	10 mills X Local & Centr Assd	2,761,758	3,022,265	5,784,023		
27	Total	8,992,597	21,155,856	30,148,453	20,511,314	
28	Mill Rate	32.56	70	52.12	35.46	

	McKenzie Count	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	64,644,017.00		64,880,000.00		129,524,017.00	
A2	2017	88,848,095.00	37.44%	100,452,842.00	54.83%	189,300,937.00	46.15%
A3	2018	86,734,155.00	-2.38%	100,949,972.00	0.49%	187,684,127.00	-0.85%
A4	2019	101,765,122.00	17.33%	121,587,167.00	20.44%	223,352,289.00	19.00%
A5	2020	126,361,325.00	24.17%	138,791,763.00	14.15%	265,153,088.00	18.72%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	141,288,868.00		141,288,868.00		282,577,736.00		46.13
B2	2023	194,187,420.00	37.44%	218,757,554.00	54.83%	412,944,974.00	46.13%	
B3	2024	189,565,759.00	-2.38%	219,829,466.00	0.49%	409,395,225.00	-0.86%	
B4	2025	222,417,505.00	17.33%	264,762,609.00	20.44%	487,180,114.00	19.00%	
B5	2026	276,175,816.00	24.17%	302,226,518.00	14.15%	578,402,334.00	18.72%	

McKenzie County

Funding Formula Increase

10%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	21,908,716	4,969,824	11,350,852	5,588,039
C2	2023-24	24,099,587	4,969,824	15,257,980	3,871,782
C3	2024-25	26,509,546	4,969,824	23,239,146	-
C4	2025-26	29,160,501	4,969,824	24,563,714	-
C5	2026-27	32,076,551	4,969,824	29,230,807	-

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	21,908,716	4,969,824	11,350,852	5,588,039
D2	2023-24	24,099,587	4,969,824	12,169,210	6,960,552
D3	2024-25	26,509,546	4,969,824	18,777,008	2,762,714
D4	2025-26	29,160,501	4,969,824	18,841,323	5,349,354
D5	2026-27	32,076,551	4,969,824	21,819,889	5,286,838

South Heart

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	18,669,185	2,439,036	21,108,221	21,108,221
2	57.73 GF Mill Levy	1,077,772	140,806	1,218,578	1,218,578
				-	
3	Total	1,077,772	140,806	1,218,578	1,218,578
4	Mill Rate	57.73	57.73	57.73	57.73

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	12,338,464	2,439,036	14,777,500	14,777,500
6	40 mills X **2022** TV	746,767		746,767	1,218,578
7	60 mills X CA		146,342	146,342	
8	10 mills X Local & Centr Assd	123,385	24,390	147,775	
9	Total	870,152	170,733	1,040,885	1,218,578
10	Mill Rate	70.52	70	70.44	82.46

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	9,770,830	2,439,036	12,209,866	12,209,866	
12	40 Mills (Max 5% Increase)	746,767		746,767	1,218,578	0.00%
13	60 mills X CA		146,342	146,342		
14	10 mills X Local & Centr Assd	97,708	24,390	122,099		
15	Total	844,476	170,733	1,015,208	1,218,578	
16	Mill Rate	86.43	70	83.15	99.8	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	9,763,013	2,326,840	12,089,853	12,089,853	
18	40 Mills (Max 5% Increase)	746,767		746,767	1,218,578	0.00%
19	60 mills X CA		139,610	139,610		
20	10 mills X Local & Centr Assd	97,630	23,268	120,899		
21	Total	844,398	162,879	1,007,276	1,218,578	
22	Mill Rate	86.49	70	83.32	100.79	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	10,416,159	2,952,760	13,368,919	13,368,919	
24	40 Mills (Max 5% Increase)	784,106		784,106	1,218,578	5.00%
25	60 mills X CA		177,166	177,166		
26	10 mills X Local & Centr Assd	104,162	29,528	133,689		
27	Total	888,267	206,693	1,094,961	1,218,578	
28	Mill Rate	85.28	70	81.9	91.15	

	South Heart	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	28,437,313.00		-		28,437,313.00	
A2	2017	18,793,360.00	-33.91%	-	#DIV/0!	18,793,360.00	-33.91%
A3	2018	14,883,028.00	-20.81%	2,534,745.00	#DIV/0!	17,417,773.00	-7.32%
A4	2019	14,871,372.00	-0.08%	2,418,218.00	-4.60%	17,289,590.00	-0.74%
A5	2020	15,867,004.00	6.69%	3,068,705.00	26.90%	18,935,709.00	9.52%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	18,669,185.00		2,439,036.00		21,108,221.00		57.73
B2	2023	12,338,464.00	-33.91%	2,439,036.00	0.00%	14,777,500.00	-29.99%	
B3	2024	9,770,830.00	-20.81%	2,439,036.00	0.00%	12,209,866.00	-17.38%	
B4	2025	9,763,013.00	-0.08%	2,326,840.00	-4.60%	12,089,853.00	-0.98%	
B5	2026	10,416,159.00	6.69%	2,952,760.00	26.90%	13,368,919.00	10.58%	

South Heart

Funding Formula Increase

6%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	4,490,460	438,787	1,296,462	2,755,212
C2	2023-24	4,759,888	438,787	1,266,493	3,054,608
C3	2024-25	5,045,481	438,787	886,650	3,720,044
C4	2025-26	5,348,210	438,787	732,592	4,176,831
C5	2026-27	5,669,103	438,787	725,391	4,504,925

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	4,490,460	438,787	1,296,462	2,755,212
D2	2023-24	4,759,888	438,787	887,573	3,433,528
D3	2024-25	5,045,481	438,787	893,110	3,713,585
D4	2025-26	5,348,210	438,787	893,110	4,016,314
D5	2026-27	5,669,103	438,787	886,378	4,343,938

Mott-Regent

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	15,642,373	965,248	16,607,621	16,607,621
2	69.02 GF Mill Levy	1,079,637	66,621	1,146,258	1,146,258
				-	
3	Total	1,079,637	66,621	1,146,258	1,146,258
4	Mill Rate	69.02	69.02	69.02	69.02

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	16,562,145	1,005,306	17,567,451	17,567,451
6	40 mills X **2022** TV	625,695		625,695	1,229,722
7	60 mills X CA		60,318	60,318	
8	10 mills X Local & Centr Assd	165,621	10,053	175,675	
9	Total	791,316	70,371	861,688	1,229,722
10	Mill Rate	47.78	70	49.05	70

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	16,928,168	1,022,095	17,950,263	17,950,263	
12	40 Mills (Max 5% Increase)	639,523		639,523	1,256,518	2.21%
13	60 mills X CA		61,326	61,326		
14	10 mills X Local & Centr Assd	169,282	10,221	179,503		
15	Total	808,804	71,547	880,351	1,256,518	
16	Mill Rate	47.78	70	49.04	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	16,923,090	1,268,624	18,191,714	18,191,714	
18	40 Mills (Max 5% Increase)	639,523		639,523	1,273,420	0.00%
19	60 mills X CA		76,117	76,117		
20	10 mills X Local & Centr Assd	169,231	12,686	181,917		
21	Total	808,754	88,804	897,557	1,273,420	
22	Mill Rate	47.79	70	49.34	70	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	15,645,397	1,142,650	16,788,047	16,788,047	
24	40 Mills (Max 5% Increase)	639,523		639,523	1,273,420	0.00%
25	60 mills X CA		68,559	68,559		
26	10 mills X Local & Centr Assd	156,454	11,427	167,880		
27	Total	795,977	79,986	875,962	1,273,420	
28	Mill Rate	50.88	70	52.18	75.85	

	Mott-Regent	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	16,419,756.00		1,113,967.00		17,533,723.00	
A2	2017	17,385,652.00	5.88%	1,160,250.00	4.15%	18,545,902.00	5.77%
A3	2018	17,770,624.00	2.21%	1,179,629.00	1.67%	18,950,253.00	2.18%
A4	2019	17,764,853.00	-0.03%	1,464,206.00	24.12%	19,229,059.00	1.47%
A5	2020	16,423,943.00	-7.55%	1,318,740.00	-9.93%	17,742,683.00	-7.73%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	15,642,373.00		965,248.00		16,607,621.00		69.02
B2	2023	16,562,145.00	5.88%	1,005,306.00	4.15%	17,567,451.00	5.78%	
B3	2024	16,928,168.00	2.21%	1,022,095.00	1.67%	17,950,263.00	2.18%	
B4	2025	16,923,090.00	-0.03%	1,268,624.00	24.12%	18,191,714.00	1.35%	
B5	2026	15,645,397.00	-7.55%	1,142,650.00	-9.93%	16,788,047.00	-7.72%	

Mott-Regent

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	3,303,801	23,200	1,056,528	2,224,072
C2	2023-24	3,402,915	23,200	996,457	2,383,257
C3	2024-25	3,505,002	23,200	1,054,047	2,427,755
C4	2025-26	3,610,152	23,200	1,077,016	2,509,936
C5	2026-27	3,718,457	23,200	1,091,503	2,603,754

Funding Formula Increase

3%

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	3,303,801	23,200	1,056,528	2,224,072
D2	2023-24	3,402,915	23,200	692,316	2,687,398
D3	2024-25	3,505,002	23,200	686,013	2,795,788
D4	2025-26	3,610,152	23,200	700,848	2,886,103
D5	2026-27	3,718,457	23,200	715,640	2,979,616

Montpelier

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	7,186,193	117,152	7,303,345	7,303,345
2	69.13 GF Mill Levy	496,782	8,099	504,880	504,880
				-	
3	Total	496,782	8,099	504,880	504,880
4	Mill Rate	69.13	69.13	69.13	69.13

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	7,321,293	120,585	7,441,878	7,441,878
6	40 mills X **2022** TV	287,448		287,448	520,931
7	60 mills X CA		7,235	7,235	
8	10 mills X Local & Centr Assd	73,213	1,206	74,419	
9	Total	360,661	8,441	369,102	520,931
10	Mill Rate	49.26	70	49.6	70

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	7,635,376	146,607	7,781,983	7,781,983	
12	40 Mills (Max 5% Increase)	299,779		299,779	544,739	4.29%
13	60 mills X CA		8,796	8,796		
14	10 mills X Local & Centr Assd	76,354	1,466	77,820		
15	Total	376,133	10,262	386,395	544,739	
16	Mill Rate	49.26	70	49.65	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	7,988,130	129,161	8,117,291	8,117,291	
18	40 Mills (Max 5% Increase)	313,629		313,629	568,210	4.62%
19	60 mills X CA		7,750	7,750		
20	10 mills X Local & Centr Assd	79,881	1,292	81,173		
21	Total	393,510	9,041	402,552	568,210	
22	Mill Rate	49.26	70	49.59	70	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	8,349,992	146,081	8,496,073	8,496,073	
24	40 Mills (Max 5% Increase)	327,836		327,836	594,725	4.53%
25	60 mills X CA		8,765	8,765		
26	10 mills X Local & Centr Assd	83,500	1,461	84,961		
27	Total	411,336	10,226	421,562	594,725	
28	Mill Rate	49.26	70	49.62	70	

	Montpelier	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	5,996,266.00		98,879.00		6,095,145.00	
A2	2017	6,108,886.00	1.88%	101,779.00	2.93%	6,210,665.00	1.90%
A3	2018	6,371,119.00	4.29%	123,746.00	21.58%	6,494,865.00	4.58%
A4	2019	6,665,443.00	4.62%	109,025.00	-11.90%	6,774,468.00	4.30%
A5	2020	6,967,120.00	4.53%	123,311.00	13.10%	7,090,431.00	4.66%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	7,186,193.00		117,152.00		7,303,345.00		69.13
B2	2023	7,321,293.00	1.88%	120,585.00	2.93%	7,441,878.00	1.90%	
B3	2024	7,635,376.00	4.29%	146,607.00	21.58%	7,781,983.00	4.57%	
B4	2025	7,988,130.00	4.62%	129,161.00	-11.90%	8,117,291.00	4.31%	
B5	2026	8,349,992.00	4.53%	146,081.00	13.10%	8,496,073.00	4.67%	

Montpelier

Funding Formula Increase

3%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	1,767,828	8,698	431,011	1,328,118
C2	2023-24	1,820,862	8,698	438,201	1,373,963
C3	2024-25	1,875,488	8,698	446,513	1,420,277
C4	2025-26	1,931,753	8,698	466,919	1,456,136
C5	2026-27	1,989,706	8,698	487,037	1,493,970

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	1,767,828	8,698	431,011	1,328,118
D2	2023-24	1,820,862	8,698	295,546	1,516,617
D3	2024-25	1,875,488	8,698	294,683	1,572,107
D4	2025-26	1,931,753	8,698	308,576	1,614,479
D5	2026-27	1,989,706	8,698	321,379	1,659,629

Velva

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	15,771,414	1,525,180	17,296,594	17,296,594
2	63 GF Mill Levy	993,599	96,086	1,089,685	1,089,685
				-	
3	Total	993,599	96,086	1,089,685	1,089,685
4	Mill Rate	63	63	63	63

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	15,943,322	1,540,889	17,484,211	17,484,211
6	40 mills X **2022** TV	630,857		630,857	1,220,448
7	60 mills X CA		92,453	92,453	
8	10 mills X Local & Centr Assd	159,433	15,409	174,842	
9	Total	790,290	107,862	898,152	1,220,448
10	Mill Rate	49.57	70	51.37	69.8

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	16,420,027	1,854,460	18,274,487	18,274,487	
12	40 Mills (Max 5% Increase)	649,719		649,719	1,279,214	2.99%
13	60 mills X CA		111,268	111,268		
14	10 mills X Local & Centr Assd	164,200	18,545	182,745		
15	Total	813,919	129,812	943,732	1,279,214	
16	Mill Rate	49.57	70	51.64	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	16,671,253	2,633,333	19,304,586	19,304,586	
18	40 Mills (Max 5% Increase)	659,660		659,660	1,351,321	1.53%
19	60 mills X CA		158,000	158,000		
20	10 mills X Local & Centr Assd	166,713	26,333	193,046		
21	Total	826,372	184,333	1,010,706	1,351,321	
22	Mill Rate	49.57	70	52.36	70	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	17,296,425	2,779,746	20,076,171	20,076,171	
24	40 Mills (Max 5% Increase)	684,397		684,397	1,405,332	3.75%
25	60 mills X CA		166,785	166,785		
26	10 mills X Local & Centr Assd	172,964	27,797	200,762		
27	Total	857,361	194,582	1,051,944	1,405,332	
28	Mill Rate	49.57	70	52.4	70	

	Velva	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	15,147,686.00		1,254,400.00		16,402,086.00	
A2	2017	15,313,499.00	1.09%	1,267,329.00	1.03%	16,580,828.00	1.09%
A3	2018	15,771,414.00	2.99%	1,525,180.00	20.35%	17,296,594.00	4.32%
A4	2019	16,012,612.00	1.53%	2,165,806.00	42.00%	18,178,418.00	5.10%
A5	2020	16,613,047.00	3.75%	2,286,265.00	5.56%	18,899,312.00	3.97%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	15,771,414.00		1,525,180.00		17,296,594.00		63
B2	2023	15,943,322.00	1.09%	1,540,889.00	1.03%	17,484,211.00	1.08%	
B3	2024	16,420,027.00	2.99%	1,854,460.00	20.35%	18,274,487.00	4.52%	
B4	2025	16,671,253.00	1.53%	2,633,333.00	42.00%	19,304,586.00	5.64%	
B5	2026	17,296,425.00	3.75%	2,779,746.00	5.56%	20,076,171.00	4.00%	

Velva

Funding Formula Increase

3%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	5,245,951	357,713	1,174,647	3,713,591
C2	2023-24	5,403,329	357,713	1,037,796	4,007,820
C3	2024-25	5,565,429	357,713	1,049,053	4,158,663
C4	2025-26	5,732,392	357,713	1,096,469	4,278,210
C5	2026-27	5,904,364	357,713	1,158,275	4,388,376

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	5,245,951	357,713	1,174,647	3,713,591
D2	2023-24	5,403,329	357,713	726,943	4,318,673
D3	2024-25	5,565,429	357,713	723,310	4,484,406
D4	2025-26	5,732,392	357,713	760,987	4,613,692
D5	2026-27	5,904,364	357,713	817,660	4,728,991

Bismarck

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	568,677,468	6,795,009	575,472,477	575,472,477
2	70 GF Mill Levy	39,807,423	475,651	40,283,073	40,283,073
				-	
3	Total	39,807,423	475,651	40,283,073	40,283,073
4	Mill Rate	70	70	70	70

Tax Year 2023

		Local Assd	Centr Assd	Total		
5	Taxable Value	582,439,463	7,225,813	589,665,276	589,665,276	
6	40 mills X **2022** TV	22,747,099		22,747,099	41,276,569	
7	60 mills X CA		433,549	433,549		
8	10 mills X Local & Centr Assd	5,824,395	72,258	5,896,653		
9	Total	28,571,493	505,807	29,077,300	41,276,569	
10	Mill Rate	49.05	70	49.31	70	

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	594,612,448	7,610,949	602,223,397	602,223,397	
12	40 Mills (Max 5% Increase)	23,222,513		23,222,513	42,155,638	2.09%
13	60 mills X CA		456,657	456,657		
14	10 mills X Local & Centr Assd	5,946,124	76,109	6,022,234		
15	Total	29,168,638	532,766	29,701,404	42,155,638	
16	Mill Rate	49.05	70	49.32	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	617,861,795	8,279,190	626,140,985	626,140,985	
18	40 Mills (Max 5% Increase)	24,130,513		24,130,513	43,829,869	3.91%
19	60 mills X CA		496,751	496,751		
20	10 mills X Local & Centr Assd	6,178,618	82,792	6,261,410		
21	Total	30,309,131	579,543	30,888,675	43,829,869	
22	Mill Rate	49.05	70	49.33	70	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	638,560,165	8,079,662	646,639,827	646,639,827	
24	40 Mills (Max 5% Increase)	24,938,886		24,938,886	45,264,788	3.35%
25	60 mills X CA		484,780	484,780		
26	10 mills X Local & Centr Assd	6,385,602	80,797	6,466,398		
27	Total	31,324,487	565,576	31,890,064	45,264,788	
28	Mill Rate	49.05	70	49.32	70	

	Bismarck	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2017	463,359,797.00		6,080,845.00		469,440,642.00	
A2	2018	474,592,267.00	2.42%	6,466,219.00	6.34%	481,058,486.00	2.47%
A3	2019	484,493,257.00	2.09%	6,811,180.00	5.33%	491,304,437.00	2.13%
A4	2020	503,427,319.00	3.91%	7,409,060.00	8.78%	510,836,379.00	3.98%
A5	2021	520,311,314.00	3.35%	7,230,212.00	-2.41%	527,541,526.00	3.27%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	568,677,468.00		6,795,009.00		575,472,477.00		70
B2	2023	582,439,463.00	2.42%	7,225,813.00	6.34%	589,665,276.00	2.47%	
B3	2024	594,612,448.00	2.09%	7,610,949.00	5.33%	602,223,397.00	2.13%	
B4	2025	617,861,795.00	3.91%	8,279,190.00	8.78%	626,140,985.00	3.97%	
B5	2026	638,560,165.00	3.35%	8,079,662.00	-2.41%	646,639,827.00	3.27%	

Bismarck

Funding Formula Increase

6%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	158,619,142	1,023,459	31,234,625	126,361,057
C2	2023-24	168,136,290	1,023,459	34,528,349	132,584,483
C3	2024-25	178,224,467	1,023,459	35,379,917	141,821,092
C4	2025-26	188,917,935	1,023,459	36,133,404	151,761,072
C5	2026-27	200,253,011	1,023,459	37,568,459	161,661,093

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	158,619,142	1,023,459	31,234,625	126,361,057
D2	2023-24	168,136,290	1,023,459	23,222,749	143,890,082
D3	2024-25	178,224,467	1,023,459	23,180,648	154,020,361
D4	2025-26	188,917,935	1,023,459	23,679,170	164,215,306
D5	2026-27	200,253,011	1,023,459	24,627,265	174,602,288

Dickinson

Tax Year 2022

#		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	154,235,534	3,381,421	157,616,955	157,616,955
2	70 GF Mill Levy	10,796,487	236,699	11,033,187	11,033,187
				-	
3	Total	10,796,487	236,699	11,033,187	11,033,187
4	Mill Rate	70	70	70	70

Tax Year 2023

#		Local Assd	Centr Assd	Total	
5	Taxable Value	146,539,181	3,381,421	149,920,602	149,920,602
6	40 mills X **2022** TV	6,169,421		6,169,421	11,033,187
7	60 mills X CA		202,885	202,885	
8	10 mills X Local & Centr Assd	1,465,392	33,814	1,499,206	
9	Total	7,634,813	236,699	7,871,513	11,033,187
10	Mill Rate	52.1	70	52.5	73.59

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

#		Local Assd	Centr Assd	Total		
11	Taxable Value	132,661,921	3,381,421	136,043,342	136,043,342	
12	40 Mills (Max 5% Increase)	6,169,421		6,169,421	11,033,187	0.00%
13	60 mills X CA		202,885	202,885		
14	10 mills X Local & Centr Assd	1,326,619	33,814	1,360,433		
15	Total	7,496,041	236,699	7,732,740	11,033,187	
16	Mill Rate	56.5	70	56.84	81.1	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

#		Local Assd	Centr Assd	Total		
17	Taxable Value	127,381,977	4,182,480	131,564,457	131,564,457	
18	40 Mills (Max 5% Increase)	6,169,421		6,169,421	11,033,187	0.00%
19	60 mills X CA		250,949	250,949		
20	10 mills X Local & Centr Assd	1,273,820	41,825	1,315,645		
21	Total	7,443,241	292,774	7,736,015	11,033,187	
22	Mill Rate	58.43	70	58.8	83.86	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

#		Local Assd	Centr Assd	Total		
23	Taxable Value	135,508,947	4,108,032	139,616,979	139,616,979	
24	40 Mills (Max 5% Increase)	6,477,892		6,477,892	11,033,187	5.00%
25	60 mills X CA		246,482	246,482		
26	10 mills X Local & Centr Assd	1,355,089	41,080	1,396,170		
27	Total	7,832,982	287,562	8,120,544	11,033,187	
28	Mill Rate	57.8	70	58.16	79.02	

	Dickinson	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	174,516,991.00		-		174,516,991.00	
A2	2017	165,804,060.00	-4.99%	-	#DIV/0!	165,804,060.00	-4.99%
A3	2018	150,103,304.00	-9.47%	2,343,689.00	#DIV/0!	152,446,993.00	-8.06%
A4	2019	144,128,920.00	-3.98%	2,898,826.00	23.69%	147,027,746.00	-3.55%
A5	2020	153,320,681.00	6.38%	2,847,258.00	-1.78%	156,167,939.00	6.22%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	154,235,534.00		3,381,421.00		157,616,955.00		70
B2	2023	146,539,181.00	-4.99%	3,381,421.00	0.00%	149,920,602.00	-4.88%	
B3	2024	132,661,921.00	-9.47%	3,381,421.00	0.00%	136,043,342.00	-9.26%	
B4	2025	127,381,977.00	-3.98%	4,182,480.00	23.69%	131,564,457.00	-3.29%	
B5	2026	135,508,947.00	6.38%	4,108,032.00	-1.78%	139,616,979.00	6.12%	

Dickinson

Funding Formula Increase

6%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	44,469,528	2,214,569	9,444,902	32,810,057
C2	2023-24	47,137,700	2,214,569	9,457,017	35,466,114
C3	2024-25	49,965,962	2,214,569	8,995,236	38,756,157
C4	2025-26	52,963,920	2,214,569	8,162,601	42,586,751
C5	2026-27	56,141,755	2,214,569	7,893,867	46,033,319

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	44,469,528	2,214,569	9,444,902	32,810,057
D2	2023-24	47,137,700	2,214,569	6,406,121	38,517,010
D3	2024-25	49,965,962	2,214,569	6,372,307	41,379,086
D4	2025-26	52,963,920	2,214,569	6,372,307	44,377,044
D5	2026-27	56,141,755	2,214,569	6,420,370	47,506,816

West Fargo

Tax Year 2022

		Local Assd	Centr Assd	Total	Max Mill Levy: No Change to SB 2066
1	Taxable Value	506,490,769	5,435,913	511,926,682	511,926,682
2	66.15 GF Mill Levy	33,504,364	359,586	33,863,950	33,863,950
				-	
3	Total	33,504,364	359,586	33,863,950	33,863,950
4	Mill Rate	66.15	66.15	66.15	66.15

Tax Year 2023

		Local Assd	Centr Assd	Total	
5	Taxable Value	561,039,825	5,302,190	566,342,015	566,342,015
6	40 mills X **2022** TV	20,259,631		20,259,631	37,927,624
7	60 mills X CA		318,131	318,131	
8	10 mills X Local & Centr Assd	5,610,398	53,022	5,663,420	
9	Total	25,870,029	371,153	26,241,182	37,927,624
10	Mill Rate	46.11	70	46.33	66.97

**2023 Levy Calculated using 2022 TV*

Tax Year 2024

		Local Assd	Centr Assd	Total		
11	Taxable Value	592,682,471	5,537,607	598,220,078	598,220,078	
12	40 Mills (Max 5% Increase)	21,272,612		21,272,612	41,875,405	5.00%
13	60 mills X CA		332,256	332,256		
14	10 mills X Local & Centr Assd	5,926,825	55,376	5,982,201		
15	Total	27,199,437	387,632	27,587,069	41,875,405	
16	Mill Rate	45.89	70	46.12	70	

**2024 Levy Calculated using +5% Max Value*

Tax Year 2025

		Local Assd	Centr Assd	Total		
17	Taxable Value	639,859,996	6,743,144	646,603,140	646,603,140	
18	40 Mills (Max 5% Increase)	22,336,243		22,336,243	45,262,220	5.00%
19	60 mills X CA		404,589	404,589		
20	10 mills X Local & Centr Assd	6,398,600	67,431	6,466,031		
21	Total	28,734,843	472,020	29,206,863	45,262,220	
22	Mill Rate	44.91	70	45.17	70	

**2025 Maximum is calculated using Local Assd Value*

Tax Year 2026

		Local Assd	Centr Assd	Total		
23	Taxable Value	686,249,846	6,315,629	692,565,475	692,565,475	
24	40 Mills (Max 5% Increase)	23,453,055		23,453,055	48,479,583	5.00%
25	60 mills X CA		378,938	378,938		
26	10 mills X Local & Centr Assd	6,862,498	63,156	6,925,655		
27	Total	30,315,554	442,094	30,757,648	48,479,583	
28	Mill Rate	44.18	70	44.41	70	

	West Fargo	Locally Assessed	% Change	Centrally Assessed	% Change	Total Tax Value	% Change
A1	2016	312,549,261.00		3,397,411.00		315,946,672.00	
A2	2017	346,210,217.00	10.77%	3,313,860.00	-2.46%	349,524,077.00	10.63%
A3	2018	365,727,078.00	5.64%	3,461,146.00	4.44%	369,188,224.00	5.63%
A4	2019	394,827,442.00	7.96%	4,214,798.00	21.77%	399,042,240.00	8.09%
A5	2020	423,443,855.00	7.25%	3,947,425.00	-6.34%	427,391,280.00	7.10%

	West Fargo	Locally Assessed	% Change 2016-2020	Centrally Assessed	% Change 2016-2020	Total Tax Value	% Change 2016-2020	GF Mill Levy
B1	2022	506,490,769.00		5,435,913.00		511,926,682.00		66.15
B2	2023	561,039,825.00	10.77%	5,302,190.00	-2.46%	566,342,015.00	10.63%	
B3	2024	592,682,471.00	5.64%	5,537,607.00	4.44%	598,220,078.00	5.63%	
B4	2025	639,859,996.00	7.96%	6,743,144.00	21.77%	646,603,140.00	8.09%	
B5	2026	686,249,846.00	7.25%	6,315,629.00	-6.34%	692,565,475.00	7.11%	

West Fargo

Funding Formula Increase

8%

	W/O SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
C1	2022-23	142,055,368	495,618	27,378,515	114,181,235
C2	2023-24	153,419,798	495,618	30,694,935	122,229,245
C3	2024-25	165,693,382	495,618	33,980,521	131,217,243
C4	2025-26	178,948,853	495,618	35,893,205	142,560,030
C5	2026-27	193,264,761	495,618	38,796,188	153,972,955

	With SB 2066	Total Adjusted Formula	Contribution From In Lieu	Contribution From Property Tax	State Aid
D1	2022-23	142,055,368	495,618	27,378,515	114,181,235
D2	2023-24	153,419,798	495,618	20,619,216	132,304,964
D3	2024-25	165,693,382	495,618	20,577,762	144,620,002
D4	2025-26	178,948,853	495,618	21,604,869	156,848,366
D5	2026-27	193,264,761	495,618	22,740,832	170,028,311

23.0351.02009

Sixty-eighth
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1158

Introduced by

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL ~~for an Act to amend and reenact subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts; and to provide an effective date.~~for an Act to amend and reenact subsection 3 of section 15.1-27-02, sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, subdivision c of subsection 1 of section 57-20-07.1, and subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, school district levy authority, and exempting taxable income in the first income bracket from taxation for individuals, estates, and trusts; to repeal sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code, relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

~~**SECTION 1. AMENDMENT.** Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:~~

~~1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by~~

~~the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. ForThe tax for an estate or trust, the schedule is equal to North Dakota taxable income multiplied by the rate in subdivision c must be used for purposes of this subsection. The tax to be computed for:~~

~~a. Single, other than head of household or surviving spousequalifying widow or widower is one and one-half percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10% $0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

~~b. Married filing jointly and surviving spousequalifying widow or widower is one and one-half percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

~~c. Married filing separately is one and one-half percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $31,300~~	~~1.10%~~	~~$0~~	
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~

~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

~~d. Head of household is one and one-half percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $50,200~~	~~1.10%~~	~~$0~~	
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~

~~e. Estates and trusts is one and one-half percent of North Dakota taxable income exceeding three thousand dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $2,500~~	~~1.10%~~	~~$0~~	
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04% $2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27% $5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~

~~f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:~~

~~(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and~~

~~(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.~~

~~In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or~~

~~all of the tax year, the tax on the joint return must be computed under this subdivision.~~

~~g. The tax commissioner shall prescribe new rate schedulesrates that apply in lieu of the schedulesrates set forth in subdivisions a through e. The new schedulesrates must be determined by increasing the minimum and maximumNorth Dakota taxable income threshold dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.~~

~~h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.~~

~~**SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after December 31, 2022.~~

SECTION 1. AMENDMENT. Subsection 3 of section 15.1-27-02 of the North Dakota Century Code is amended and reenacted as follows:

3. On or before December fifteenth, each school district shall file with the superintendent of public instruction the taxable valuation and mill levy certifications, which must be separated by property classification. If a district fails to file the taxable valuation and mill levy certifications by the required date, the superintendent of public instruction may not forward to the district any state aid payments to which the district is entitled, until the taxable valuation and mill levy certifications are filed.

SECTION 2. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. ~~(Effective through June 30, 2025)~~

~~1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the~~

~~2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Mobile home tax revenue;~~

~~(2) Telecommunications tax revenue; and~~

~~(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.~~

~~b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the~~

~~2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.~~

~~b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1) For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3) For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and~~

~~one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a. Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1) Tuition revenue shall be adjusted as follows:~~

~~(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and~~

~~(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements~~

~~of subdivision c of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b. The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~**Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)**~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

   a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

(a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

(b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

(c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~,~~ ~~until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3); ~~and~~

d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.

   b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

   c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

      (1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

      (2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's

weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as~~

~~established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

a. Subtract an amount equal to ~~sixty~~the sum of:

(1) Forty mills multiplied by the taxable valuation of residential, agricultural, and commercial property in the school district. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter; and

(2) Sixty mills multiplied by the taxable valuation of centrally assessed property in the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

b. The total number of mills levied in the previous calendar year by each school district for all purposes, separated by property classification; and

c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes, separated by property classification.

SECTION 3. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall ~~utilize an amount equal to sixty~~deduct the sum of the following:

1. Forty mills times twenty percent of the state average valuation of residential, agricultural, and commercial property per student multiplied by the number of weighted student units in the district; and

2. Sixty mills times twenty percent of the state average valuation of centrally assessed property per student multiplied by the number of weighted student units in the district.

SECTION 4. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~fifty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

(2) If the person's income is in excess of ~~twenty-two~~fifty thousand dollars and not in excess of ~~twenty-six~~seventy-five thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

i. A person who is eligible for an exemption under this subsection is eligible to receive a full or partial exemption under this subsection based on the date of submission of the verified statement of facts required under subdivision f. If the person submits the verified statement of facts:

(1) By February first of the current taxable year, the person is eligible for the full exemption under this subsection.

(2) After February first of the current taxable year and no later than November fifth of the current taxable year, the person is eligible to receive a pro rata share of the exemption under this subsection. To claim a pro rata share of the exemption under this subsection, the person shall submit the verified statement of facts by the fifth day of the month preceding the first full month of the prorated exemption. The tax commissioner shall calculate the pro rata share of the exemption based on the number of months remaining in the taxable year, beginning the month after the verified statement of facts is timely submitted.

SECTION 5. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 6. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.
2. For purposes of this section:
   a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.
   b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.
   c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.
   d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.
   e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.
3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the

governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:

a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.

b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 7. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.

a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.

b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

e. For taxable years beginning after 2012:

(1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~fifty mills on the dollar of the taxable valuation of residential, agricultural, and commercial property in the school district and seventy mills on the dollar of taxable valuation of centrally assessed property in the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 8. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6. Nothing in this section limits the board of a school district from levying:~~

~~a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~**School district levies. (Effective for taxable years beginning after December 31, 2024)**~~

1. a. The board of a school district may levy a tax ~~not exceeding~~for the school district's local contribution to the costs of education which may not exceed the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~:

   (1) Forty mills on the taxable valuation of residential, agricultural, and commercial property in the district~~, for any purpose related to the provision of educational services~~. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter.

   (2) Sixty mills on the taxable valuation of centrally assessed property in the district.

   b. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 9. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. ~~Provide~~For tax statements to be mailed to an owner of a residential, agricultural, or commercial parcel of land, provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable

years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus the ~~number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Seventy mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~forty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 10. AMENDMENT. Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.

a. Single, other than head of household or surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$37,450~~	~~1.10%~~	~~$0~~
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~
$0	$44,725	$0.00 + 0.00%	$0
$44,725	$108,325	$0.00 + 2.04%	$44,725
$108,325	$225,975	$1,297.44 + 2.27%	$108,325
$225,975	$491,350	$3,968.10 + 2.64%	$225,975
$491,350		$10,974.00 + 2.90%	$491,350

b. Married filing jointly and surviving spouse.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~
$0	$74,750	$0 + 0.00%	$0
$74,750	$180,550	$0.00 + 2.04%	$74,750
$180,550	$275,100	$2,158.32 + 2.27%	$180,550
$275,100	$491,350	$4,304.61 + 2.64%	$275,100
$491,350		$10,013.61 + 2.90%	$491,350

c. Married filing separately.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~

~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~
$0	$37,375	$0 + 0.00%	$0
$37,375	$90,275	$0.00 + 2.04%	$37,375
$90,275	$137,550	$1,079.16 + 2.27%	$90,275
$137,550	$245,675	$2,152.30 + 2.64%	$137,550
$245,675		$5,006.80 + 2.90%	$245,675

d. Head of household.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~
$0	$59,950	$0 + 0.00%	$0
$59,950	$154,750	$0.00 + 2.04%	$59,950
$154,750	$250,550	$1,933.92 + 2.27%	$154,750
$250,550	$491,350	$4,108.58 + 2.64%	$250,550
$491,350		$10,465.70 + 2.90%	$491,350

e. Estates and trusts.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$2,500~~	~~1.10%~~	~~$0~~
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04%~~	~~$2,500~~
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27%~~	~~$5,900~~
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~
$0	$3,000	$0 + 0.00%	$0
$3,000	$7,050	$0.00 + 2.04%	$3,000
$7,050	$10,750	$82.62 + 2.27%	$7,050

$10,750	$14,650	$166.61 + 2.64%	$10,750
$14,650		$269.57 + 2.90%	$14,650

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 11. REPEAL. Section 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 12. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. 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.

SECTION 13. EFFECTIVE DATE. Sections 4, 6, 7, 8, and 10 of this Act are effective for taxable years beginning after December 31, 2022.

Testimony on HB 1158
Amy McBeth, Regional AVP Public Affairs, BNSF Railway
March 24, 2023
Senate Appropriations Committee

BNSF Railway is opposed to the property tax provisions included in HB 1158 that would result in a tax increase on centrally assessed taxpayers in the state.

In its current form, HB 1158 would provide a higher tax rate for centrally assessed property than for residential, agricultural and commercial property.

There are a number of reasons to be opposed to separating centrally assessed taxpayers from others, but BNSF's opposition focuses on the legal issues: Federal law prohibits inequitable tax treatment for railroads and there's a court decision specific to North Dakota's past attempts to unfairly tax railroads that should guide the committee's decision.

Given the impact on interstate commerce that individual city and state regulations of railroads could have, Congress has enacted laws to ensure national uniformity for regulation of rail transportation.

The Railroad Revitalization and Regulatory Reform Act of 1976 (known as the 4-R Act) is one such law and it prohibits states from enacting taxes that discriminate against railroads. Similarly, under the 4-R Act, states cannot collect taxes on railroads at a tax rate that exceeds the rate for other commercial and industrial property.

A 1981 decision by the U.S. Court of Appeals for the Eight Circuit Court confirmed that North Dakota cannot treat railroads differently than other commercial and industrial property taxpayers. In the 1981 case, railroads and other centrally assessed taxpayers were subject to North Dakota personal property tax, but other commercial and industrial taxpayers were not. The Court held that this discriminatory treatment of railroads by North Dakota violated the 4-R Act.

Thank you for your consideration.

HB 1158 Testimony

Chairman Bekkedahl and members of the Senate Appropriations Committee, for the record my name is Brandt Dick, North Dakota Small Organized Schools (NDSOS) Board President, and North Dakota Association of School Administrators Legislative Focus Group finance chair. I am here to speak in support of HB 1158 with some considerations for this committee.

NDSOS and the Focus Group are supportive of the effort to provide property tax relief to the taxpayers of public-school districts across the state. School leaders realize that a major portion of each person's property tax does go towards the amount that the state sets forth for local effort in the State Funding Formula – presently 60 mills or 6% of the taxable valuation of a district, and we believe taxpayers would benefit from the change.

My first Superintendent job was in 2008 at HMB, and at that point public school districts could levy 185 mills, or 18.5% of their taxable valuation for their general fund. This then was reduced to 110 mills, or 11%, to the present 60 mills or 6%.

A consideration I have for this committee is looking at page 14, line 15, and what I have titled the W affect for West Fargo, Watford City, and Williston as examples of three districts who have experienced great taxable valuation growth the last 10 years and may well continue to see growth moving forward. The chart shows what would happen with the proposed 5% growth index if that district had a 10% growth in valuation every year. By the end of 2031, using $150 million as a base taxable valuation, this "fictitious" W school district would have their deduction pushed down to 26.3 mills or 2.63% of their taxable valuation, and would cost the state an additional $14.1 million compared to language that would deduct 40 mills converted to a dollar amount each year.

Property tax was the most common concern I have heard from taxpayers, and HB 1158 would provide tax relief to those taxpayers. I urge a Do Pass for HB 1158 with the consideration to drop the arbitrary 5% growth factor and instead deduct 40 mills1. I stand for any questions.

The W affect

Year	% Increase	Baseline Year TV	40 mill deduction + 5%	Mill Deduction Actual	If 40 mill
2022		$150,000,000	$6,000,000	40	
2023	10%	$165,000,000	$6,300,000	38.2	$6,600,000
2024	10%	$181,500,000	$6,615,000	36.4	$7,260,000
2025	10%	$199,650,000	$6,945,750	34.8	$7,986,000
2026	10%	$219,615,000	$7,293,038	33.2	$8,784,600
2027	10%	$241,576,500	$7,657,689	31.7	$9,663,060
2028	10%	$265,734,150	$8,040,574	30.3	$10,629,366
2029	10%	$292,307,565	$8,442,603	28.9	$11,692,303
2030	10%	$321,538,322	$8,864,733	27.6	$12,861,533
2031	10%	$353,692,154	$9,307,969	26.3	$14,147,686
			$75,467,355		**$89,624,548**
				Difference	**$14,157,192**

THE CHAMBER
FARGO MOORHEAD WEST FARGO

FMWF Chamber Letter of Support – Competitive Tax Structure

March 24th, 2023

Chairman Bekkedahl and Members of the Senate Appropriations Committee:

For the record, my name is Cale Dunwoody, and I am the Director of Public Policy for the Fargo Moorhead West Fargo (FMWF) Chamber of Commerce. The Chamber's mission is to be a catalyst for economic growth and prosperity for businesses, members, and the greater community. On behalf of our over 1,900 members, I respectfully offer testimony in support of increasing North Dakota's tax competitiveness through income and property tax relief.

As you know, workforce is a major challenge facing every employer across the nation and North Dakota businesses are not exempt from these challenges. Our local businesses have seen firsthand the challenges of attracting and retaining talented individuals in the current employment and economic market. Many of the states across this nation are evaluating their budgets, regulations, and taxes to create a more competitive environment in hopes to attract and retain workers. In order to effectively compete on a national and global scale for workforce, the state of North Dakota must continue to evaluate its tax structure.

We believe it is important to underscore the importance of a robust tax climate that promotes economic growth and prosperity. While we recognize the dichotomy amongst the state as it relates to income and property tax relief, we support the legislature's willingness to compromise and bring a multi-prong tax relief solution to hundreds of thousands of North Dakotans. As a community that borders a high-tax and high-regulation state like Minnesota, we see the real-world impacts of a competitive tax and regulatory structure.

In conclusion, while every state looks to compete for workforce, our state must continue to find creative solutions to keep North Dakota competitive and enhance our ability to attract and retain highly skilled personnel. The current income and property tax proposals do exactly that by expanding opportunities and incentivizing individuals to remain or relocate to North Dakota.

On behalf of our members, I would like to thank committee members for their time and would respectfully urge the legislature to continue supporting a positive tax climate for both property and income tax.

Respectfully,

Cale Dunwoody
Director of Public Policy
FMWF Chamber of Commerce
Cdunwoody@fmwfchamber.com

23.0351.02010
Title.

Prepared by the Legislative Council staff for
Senator Mathern
March 24, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1158

In lieu of the amendments adopted by the Senate as printed on page 1076-1095 of the Senate Journal, House Bill No. 1158 is amended as follows:

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact subsection 3 of section 15.1-27-02, sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, and subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, information displayed on property tax statements, and school district levy authority; to repeal sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code, relating to adjustments to state aid payments; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 3 of section 15.1-27-02 of the North Dakota Century Code is amended and reenacted as follows:

3. On or before December fifteenth, each school district shall file with the superintendent of public instruction the taxable valuation and mill levy certifications<u>, which must be separated by property classification</u>. If a district fails to file the taxable valuation and mill levy certifications by the required date, the superintendent of public instruction may not forward to the district any state aid payments to which the district is entitled, until the taxable valuation and mill levy certifications are filed.

SECTION 2. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. **~~(Effective through June 30, 2025)~~**

~~1.~~ ~~To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a.~~ ~~All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b.~~ ~~An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c.~~ ~~An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1)~~ ~~Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed~~

~~by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2)~~ ~~Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3)~~ ~~Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the 2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4)~~ ~~Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5)~~ ~~Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6)~~ ~~Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d.~~ ~~An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1)~~ ~~Mobile home tax revenue;~~

~~(2)~~ ~~Telecommunications tax revenue; and~~

~~(3)~~ ~~Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e.~~ ~~Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became~~

~~an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2.~~ ~~a.~~ ~~The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.~~

~~b.~~ ~~For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c.~~ ~~Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3.~~ ~~a.~~ ~~For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by~~

~~fifteen percent and then the difference added to the amount determined in paragraph 1.~~

~~b.~~ ~~For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c.~~ ~~The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1)~~ ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2)~~ ~~For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ ~~For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4)~~ ~~For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of~~

~~subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5)~~ ~~For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6)~~ ~~For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4.~~ ~~After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a.~~ ~~Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b.~~ ~~Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1)~~ ~~Tuition revenue shall be adjusted as follows:~~

~~(a)~~ ~~In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school~~

~~district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and~~

~~(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b. The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

   a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

   b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

   c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

(a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

(b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

(c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~, until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3); ~~and~~

d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.

b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied~~

~~by the district's weighted student units from the previous school year.~~

~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

   a. Subtract an amount equal to ~~sixty~~the sum of:

      (1) Forty mills multiplied by the taxable valuation of residential, agricultural, and commercial property in the school district. For

purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter; and

(2) Sixty mills multiplied by the taxable valuation of centrally assessed property in the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

   a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

   b. The total number of mills levied in the previous calendar year by each school district for all purposes, separated by property classification; and

   c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes, separated by property classification.

SECTION 3. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall ~~utilize an amount equal to sixty~~deduct the sum of the following:

1. Forty mills times twenty percent of the state average valuation of residential, agricultural, and commercial property per student multiplied by the number of weighted student units in the district; and

2. Sixty mills times twenty percent of the state average valuation of centrally assessed property per student multiplied by the number of weighted student units in the district.

SECTION 4. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~fifty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum

reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

(2) If the person's income is in excess of ~~twenty-two~~fifty thousand dollars and not in excess of ~~twenty-six~~seventy-five thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

i. A person who is eligible for an exemption under this subsection is eligible to receive a full or partial exemption under this subsection based on the date of submission of the verified statement of facts required under subdivision f. If the person submits the verified statement of facts:

(1) By February first of the current taxable year, the person is eligible for the full exemption under this subsection.

(2) After February first of the current taxable year and no later than November fifth of the current taxable year, the person is eligible to receive a pro rata share of the exemption under this subsection. To claim a pro rata share of the exemption under this subsection, the person shall submit the verified statement of facts by the fifth day of the month preceding the first full month of the prorated exemption. The tax commissioner shall calculate the pro rata share of the exemption based on the number of months remaining in the taxable year, beginning the month after the verified statement of facts is timely submitted.

SECTION 5. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 6. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.

2. For purposes of this section:

   a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.

   b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.

c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.

d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.

e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

   a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

   b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

   c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

   ~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:

   a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.

   b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 7. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.

   a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.

   b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

   c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

   d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

e. For taxable years beginning after 2012:

(1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~fifty mills on the dollar of the taxable valuation of residential, agricultural, and commercial property in the school district and seventy mills on the dollar of taxable valuation of centrally assessed property in the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 8. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses.~~

~~The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3.~~ ~~The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4.~~ ~~The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5.~~ ~~The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6.~~ ~~Nothing in this section limits the board of a school district from levying:~~

~~a.~~ ~~Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b.~~ ~~Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~**School district levies. (Effective for taxable years beginning after December 31, 2024)**~~

1. a. The board of a school district may levy a tax ~~not exceeding~~for the school district's local contribution to the costs of education which may not exceed the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~:

(1) Forty mills on the taxable valuation of residential, agricultural, and commercial property in the district~~, for any purpose related to the provision of educational services~~. For purposes of this paragraph, "taxable valuation" means, for taxable year 2023, the 2022 taxable valuation of the school district, and for taxable year 2024 and each year thereafter, the 2022 taxable valuation increased by five percent per year, or the actual increase in taxable valuation, as compared to the previous year's taxable valuation calculation, whichever is less, beginning with taxable year 2024 and each year thereafter.

(2) Sixty mills on the taxable valuation of centrally assessed property in the district.

b. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 9. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. ~~Provide~~For tax statements to be mailed to an owner of a residential, agricultural, or commercial parcel of land, provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable

years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus th~~e number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Seventy mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~forty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 10. REPEAL. Section 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 11. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. 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.

SECTION 12. EFFECTIVE DATE. Sections 4, 6, 7, and 8 of this Act are effective for taxable years beginning after December 31, 2022."

Renumber accordingly

#26769

Legislative Council

North Dakota Legislative Council

Prepared for Senator Mathern
LC# 23.9570.01000
March 2023

ESTIMATED TAX RELIEF - HOUSE BILL NO. 1158

INCOME TAX RELIEF PROPOSAL

The schedule below provides information on the estimated fiscal impact of the income tax relief proposal in Engrossed House Bill No. 1158 with Senate amendments [23.0351.03000]. The proposal exempts taxable income in the first tax bracket from taxation. The income tax relief would result in a decrease in tax collections reducing general fund revenues for the 2023-25 biennium. The amounts reflect information provided by the Tax Department.

Tax Bracket	Total Estimated Tax Relief - 2023-25 Biennium			Average Annual Tax Relief per Return	
	Residents	**Nonresidents**	**Total**	**Residents**	**Nonresidents**
First	$96,650,000	$7,580,000	$104,230,000	$219	$77
Second	129,120,000	9,880,000	139,000,000	$629	$177
Third	22,860,000	2,830,000	25,690,000	$639	$164
Fourth	10,040,000	1,660,000	11,700,000	$637	$111
Fifth	6,080,000	1,290,000	7,370,000	$638	$51
Total	**$264,750,000**	**$23,240,000**	**$287,990,000**		

RESIDENT AND NONRESIDENT INCOME TAX RETURNS AND LIABILITY

The schedule below provides information on the estimated tax liability and tax returns for the 2023-25 biennium based on residents and nonresidents. The total estimated tax liability reflects the executive budget forecast with adjustments for the automation income tax credit and income tax relief proposal.

Tax Bracket	Estimated Number of Tax Returns - Biennium			Estimated Tax Liability - Biennium		
	Residents	**Nonresidents**	**Total**	**Residents**	**Nonresidents**	**Total**
First	221,000	58,000	279,000	$116,330,000	$9,210,000	$125,540,000
Second	95,000	29,000	124,000	297,150,000	24,190,000	321,340,000
Third	17,000	10,000	27,000	126,690,000	17,280,000	143,970,000
Fourth	7,000	7,000	14,000	107,110,000	19,580,000	126,690,000
Fifth	4,000	10,000	14,000	322,490,000	111,720,000	434,210,000
Total	**344,000**	**114,000**	**458,000**	**$969,770,000**	**$181,980,000**	**$1,151,750,000**

INCOME TAX BRACKETS

The schedule below provides information on the estimated income brackets for the 2023-25 biennium based on information provided by the Tax Department.

Tax Bracket	Tax Rate (Current Law)	Annual Taxable Income Over				
		Single Filer Return	**Married Filing Jointly Return**	**Married Filing Separately Return**	**Head of Household Return**	**Qualifying Widow(er) Return**
First	1.10%	$0	$0	$0	$0	$0
Second	2.04%	$44,725	$74,750	$37,375	$59,950	$74,750
Third	2.27%	$108,325	$180,550	$90,275	$154,750	$180,550
Fourth	2.64%	$225,975	$275,100	$137,550	$250,550	$275,100
Fifth	2.90%	$491,350	$491,350	$245,675	$491,350	$491,350

PROPERTY TAX RELIEF PROPOSAL - SCHOOL DISTRICT MILL LEVY REDUCTION

The property tax relief proposal in Engrossed House Bill No. 1158 with Senate amendments [23.0351.03000] decreases school district mill levy authority by 20 mills for residential, commercial, and agricultural property providing 20 mills of property tax relief. Centrally assessed property is excluded from the mill levy reduction. This property tax relief proposal is also included in Engrossed Senate Bill No. 2066. The proposal provides $203.1 million of property tax relief resulting in a corresponding increase in the state's share of the cost of K-12 education based on estimates from the Department of Public Instruction. The $203.1 million was added by the Senate to the Department of Public Instruction's appropriation in Senate Bill No. 2013.

For a home with a true and full value of $200,000, the estimated tax relief of a 20 mill property tax reduction is $180 per year.

PROPERTY TAX RELIEF PROPOSAL - HOMESTEAD TAX CREDIT PROGRAM EXPANSION

The property tax relief proposal in Engrossed House Bill No. 1158 with Senate amendments [23.0351.03000] expands the homestead tax credit program, which is available to North Dakota residents who meet certain income limits and are at least age 65. The proposal increases the income limits by replacing the current six thresholds of varying income levels up to a maximum of $42,000 with two thresholds, one for incomes up to $50,000 and another for incomes between $50,000 and $75,000. The proposal also increases the taxable value exemption from the current limit of $5,625 to $9,000. A taxable valuation limit of $5,625 relates to an exemption of $125,000 of true and full value while a taxable value exemption of $9,000 relates to an exemption of $200,000 of true and full value.

Based on the fiscal note, the estimated cost of the homestead tax credit expansion is $64.9 million, excluding the renters' refund. The bill includes an appropriation of $80 million of ongoing funding from the general fund to the Tax Commissioner to pay for the additional credits resulting from the program expansion. Engrossed Senate Bill No. 2006 includes $18.9 million of ongoing funding from the general fund for the current homestead tax credit program before the expansion.

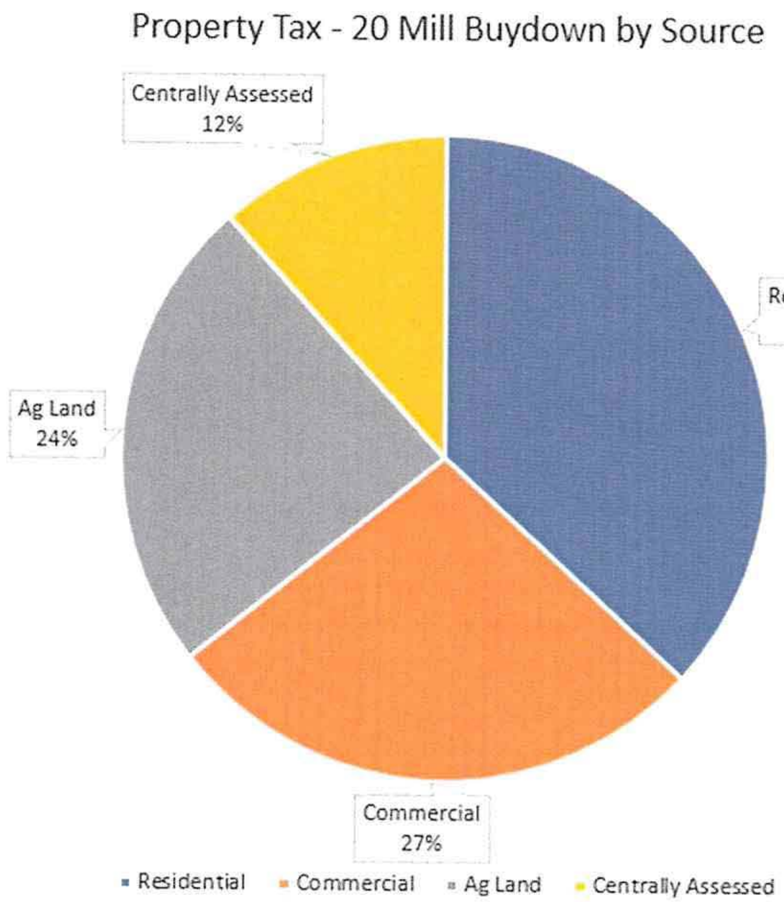
Based on the statewide average property tax rate of 213 mills levied in 2021, a qualifying taxpayer with an income of less than $50,000 and a home with a true and full value of $200,000 would have estimated tax relief of $1,900 per year.

Individual Income Tax (0% and 1.99% Plan) and Residential Property Tax							
County Comparison							
	Individual Income Tax		Residential Property Only				
County	Return Count	Average Savings Per Return	Number of Owner Occupied Homes	10 Mill Average Savings	15 Mill Average Savings	17 Mill Average Savings	20 Mill Average Savings
Adams County	954	$342	732	$44	$66	$75	$88
Barnes County	5,002	$400	3,645	$60	$90	$102	$120
Benson County	1,554	$319	1,336	$33	$49	$56	$65
Billings County	257	$622	241	$125	$187	$212	$249
Bottineau County	2,946	$435	2,108	$108	$162	$184	$216
Bowman County	1,491	$671	956	$60	$90	$102	$120
Burke County	1,004	$474	733	$43	$64	$72	$85
Burleigh County	45,654	$572	27,727	$127	$190	$216	$254
Cass County	89,217	$639	41,312	$129	$194	$220	$259
Cavalier County	1,660	$500	1,292	$49	$73	$83	$98
Dickey County	2,120	$388	1,552	$42	$63	$71	$84
Divide County	915	$414	650	$66	$98	$111	$131
Dunn County	1,646	$648	1,090	$91	$136	$155	$182
Eddy County	1,136	$384	701	$31	$46	$52	$61
Emmons County	1,517	$396	1,206	$45	$68	$77	$91
Foster County	1,622	$412	1,116	$60	$90	$102	$120
Golden Valley County	770	$397	579	$70	$105	$119	$140
Grand Forks County	30,969	$486	15,121	$109	$164	$186	$219
Grant County	946	$296	944	$25	$37	$42	$49
Griggs County	983	$373	772	$31	$46	$52	$62
Hettinger County	1,179	$462	819	$41	$61	$70	$82
Kidder County	1,012	$396	776	$49	$73	$83	$97
LaMoure County	1,867	$436	1,436	$34	$51	$58	$68
Logan County	757	$376	647	$27	$41	$46	$54
McHenry County	2,597	$399	1,921	$43	$64	$73	$85
McIntosh County	1,255	$376	905	$39	$58	$66	$77
McKenzie County	4,654	$782	2,963	$108	$162	$184	$216
McLean County	4,507	$430	3,356	$91	$137	$155	$182
Mercer County	3,821	$480	2,937	$96	$144	$163	$192
Morton County	15,897	$504	9,652	$101	$152	$172	$202
Mountrail County	3,572	$553	2,131	$93	$139	$157	$185
Nelson County	1,500	$452	996	$27	$41	$47	$55
Oliver County	537	$435	600	$74	$111	$126	$148
Pembina County	3,145	$476	2,162	$43	$64	$73	$85
Pierce County	1,643	$390	1,304	$50	$76	$86	$101
Ramsey County	5,343	$430	2,879	$84	$126	$143	$168
Ransom County	2,479	$414	1,730	$56	$85	$96	$113
Renville County	1,054	$428	708	$50	$74	$84	$99
Richland County	7,372	$436	4,701	$70	$105	$119	$140
Rolette County	3,690	$257	2,544	$18	$28	$31	$37
Sargent County	2,070	$429	1,294	$40	$61	$69	$81
Sheridan County	489	$321	527	$18	$27	$31	$36
Sioux County	530	$130	477	$3	$4	$5	$6
Slope County	117	$360	284	$8	$11	$13	$15
Stark County	15,116	$483	8,277	$108	$162	$184	$216
Steele County	713	$490	606	$49	$73	$83	$97
Stutsman County	9,470	$442	5,745	$80	$121	$137	$161
Towner County	934	$406	743	$33	$49	$55	$65
Traill County	3,591	$456	2,447	$56	$83	$95	$111
Walsh County	5,018	$415	3,525	$38	$57	$65	$76
Ward County	28,910	$491	16,727	$102	$154	$174	$205
Wells County	1,918	$406	1,354	$40	$60	$68	$80
Williams County	16,093	$562	8,339	$124	$186	$211	$248
Totals	**345,213**		**199,325**				

Individual Income Tax Comparison						
3 Tier System: 0%, 1.75%, and 2.5%						
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938
2	2.04%	1.75%	248,824	$267,016,822	$108,977,825	$158,038,997
3	2.27%	1.75%	52,901	$120,131,628	$77,904,388	$42,227,240
4	2.64%	2.50%	27,090	$106,078,279	$80,255,053	$25,823,226
5	2.90%	2.50%	28,907	$361,641,189	$301,508,983	$60,132,206
Biennium Totals			916,116	$959,102,856	$568,646,249	**$390,456,607**

Individual Income Tax Comparison						
3 Tier System: 0%, 1.85%, and 2.5%						
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938
2	2.04%	1.85%	248,824	$267,016,822	$115,530,241	$151,486,581
3	2.27%	1.85%	52,901	$120,131,628	$82,524,023	$37,607,605
4	2.64%	2.50%	27,090	$106,078,279	$83,276,295	$22,801,984
5	2.90%	2.50%	28,907	$361,641,189	$303,370,594	$58,270,595
Biennium Totals			916,116	$959,102,856	$584,701,153	**$374,401,703**

Individual Income Tax Comparison						
3 Tier System: 0%, 1.95%, and 2.5%						
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938
2	2.04%	1.95%	248,824	$267,016,822	$122,096,945	$144,919,877
3	2.27%	1.95%	52,901	$120,131,628	$87,158,622	$32,973,006
4	2.64%	2.50%	27,090	$106,078,279	$86,312,756	$19,765,523
5	2.90%	2.50%	28,907	$361,641,189	$305,237,329	$56,403,860
Biennium Totals			916,116	$959,102,856	$600,805,652	**$358,297,204**


Property Tax - 20 Mill Buydown by Source
Centrally Assessed 12%
Residential 37%
Ag Land 24%
Commercial 27%
Residential
Commercial
Ag Land
Centrally Assessed

RESIDENTIAL PROPERTY				
County	10 Mill Relief Per Household	15 Mill Relief Per Household	17 Mill Relief Per Household	20 Mill Relief Per Household
ADAMS	$ 44.14	$ 66.20	$ 75.03	$ 88.27
BARNES	$ 59.96	$ 89.94	$ 101.93	$ 119.92
BENSON	$ 32.66	$ 48.98	$ 55.51	$ 65.31
BILLINGS	$ 124.54	$ 186.81	$ 211.72	$ 249.08
BOTTINEAU	$ 108.23	$ 162.34	$ 183.99	$ 216.46
BOWMAN	$ 60.22	$ 90.33	$ 102.37	$ 120.44
BURKE	$ 42.50	$ 63.75	$ 72.25	$ 85.00
BURLEIGH	$ 126.95	$ 190.42	$ 215.81	$ 253.89
CASS	$ 129.30	$ 193.95	$ 219.81	$ 258.60
CAVALIER	$ 48.86	$ 73.29	$ 83.06	$ 97.71
DICKEY	$ 41.95	$ 62.92	$ 71.31	$ 83.90
DIVIDE	$ 65.57	$ 98.35	$ 111.46	$ 131.13
DUNN	$ 90.96	$ 136.44	$ 154.63	$ 181.92
EDDY	$ 30.55	$ 45.82	$ 51.93	$ 61.09
EMMONS	$ 45.35	$ 68.02	$ 77.09	$ 90.70
FOSTER	$ 59.77	$ 89.66	$ 101.61	$ 119.54
GOLDEN VALLEY	$ 70.17	$ 105.26	$ 119.29	$ 140.34
GRAND FORKS	$ 109.36	$ 164.04	$ 185.92	$ 218.73
GRANT	$ 24.75	$ 37.12	$ 42.07	$ 49.50
GRIGGS	$ 30.88	$ 46.32	$ 52.49	$ 61.76
HETTINGER	$ 40.99	$ 61.49	$ 69.69	$ 81.98
KIDDER	$ 48.56	$ 72.84	$ 82.55	$ 97.12
LAMOURE	$ 34.17	$ 51.26	$ 58.09	$ 68.34
LOGAN	$ 27.03	$ 40.55	$ 45.96	$ 54.07
MCHENRY	$ 42.70	$ 64.06	$ 72.60	$ 85.41
MCINTOSH	$ 38.67	$ 58.01	$ 65.74	$ 77.35
MCKENZIE	$ 108.00	$ 162.00	$ 183.60	$ 216.00
MCLEAN	$ 91.11	$ 136.66	$ 154.88	$ 182.22
MERCER	$ 96.15	$ 144.22	$ 163.45	$ 192.30
MORTON	$ 101.07	$ 151.60	$ 171.81	$ 202.13
MOUNTRAIL	$ 92.63	$ 138.94	$ 157.47	$ 185.26
NELSON	$ 27.49	$ 41.24	$ 46.74	$ 54.98
OLIVER	$ 73.83	$ 110.75	$ 125.51	$ 147.66
PEMBINA	$ 42.75	$ 64.12	$ 72.67	$ 85.49
PIERCE	$ 50.43	$ 75.65	$ 85.73	$ 100.86
RAMSEY	$ 83.89	$ 125.83	$ 142.61	$ 167.78
RANSOM	$ 56.36	$ 84.54	$ 95.82	$ 112.73
RENVILLE	$ 49.60	$ 74.39	$ 84.31	$ 99.19
RICHLAND	$ 70.21	$ 105.31	$ 119.35	$ 140.42
ROLETTE	$ 18.35	$ 27.52	$ 31.19	$ 36.69
SARGENT	$ 40.36	$ 60.54	$ 68.61	$ 80.72
SHERIDAN	$ 18.00	$ 27.00	$ 30.60	$ 36.01
SIOUX	$ 3.00	$ 4.50	$ 5.10	$ 5.99
SLOPE	$ 7.62	$ 11.43	$ 12.96	$ 15.25
STARK	$ 108.20	$ 162.31	$ 183.95	$ 216.41
STEELE	$ 48.63	$ 72.94	$ 82.67	$ 97.26
STUTSMAN	$ 80.38	$ 120.56	$ 136.64	$ 160.75
TOWNER	$ 32.64	$ 48.95	$ 55.48	$ 65.27
TRAILL	$ 55.61	$ 83.41	$ 94.53	$ 111.21
WALSH	$ 37.95	$ 56.93	$ 64.52	$ 75.90
WARD	$ 102.43	$ 153.65	$ 174.13	$ 204.86
WELLS	$ 40.17	$ 60.26	$ 68.30	$ 80.35
WILLIAMS	$ 124.08	$ 186.13	$ 210.94	$ 248.17
Totals	**$ 3,239.71**	**$ 4,859.57**	**$ 5,507.51**	**$ 6,479.42**

COMMERCIAL PROPERTY				
County	10 Mill Relief Per County	15 Mill Relief Per County	17 Mill Relief Per County	20 Mill Relief Per County
ADAMS	$ 17,270.35	$ 25,905.53	$ 29,359.60	$ 34,540.70
BARNES	$ 119,331.36	$ 178,997.04	$ 202,863.31	$ 238,662.72
BENSON	$ 24,373.65	$ 36,560.48	$ 41,435.21	$ 48,747.30
BILLINGS	$ 65,082.99	$ 97,624.49	$ 110,641.08	$ 130,165.98
BOTTINEAU	$ 69,543.77	$ 104,315.66	$ 118,224.41	$ 139,087.54
BOWMAN	$ 46,589.82	$ 69,884.73	$ 79,202.69	$ 93,179.64
BURKE	$ 27,040.17	$ 40,560.26	$ 45,968.29	$ 54,080.34
BURLEIGH	$ 1,706,341.53	$ 2,559,512.30	$ 2,900,780.60	$ 3,412,683.06
CASS	$ 4,212,447.26	$ 6,318,670.89	$ 7,161,160.34	$ 8,424,894.52
CAVALIER	$ 43,828.90	$ 65,743.35	$ 74,509.13	$ 87,657.80
DICKEY	$ 44,768.86	$ 67,153.29	$ 76,107.06	$ 89,537.72
DIVIDE	$ 54,984.35	$ 82,476.52	$ 93,473.39	$ 109,968.70
DUNN	$ 129,638.88	$ 194,458.32	$ 220,386.10	$ 259,277.76
EDDY	$ 14,210.71	$ 21,316.07	$ 24,158.21	$ 28,421.42
EMMONS	$ 18,522.45	$ 27,783.68	$ 31,488.17	$ 37,044.90
FOSTER	$ 43,721.23	$ 65,581.85	$ 74,326.09	$ 87,442.46
GOLDEN VALLEY	$ 14,939.47	$ 22,409.21	$ 25,397.10	$ 29,878.94
GRAND FORKS	$ 1,151,678.66	$ 1,727,517.99	$ 1,957,853.72	$ 2,303,357.32
GRANT	$ 9,798.66	$ 14,697.99	$ 16,657.72	$ 19,597.32
GRIGGS	$ 23,047.57	$ 34,571.35	$ 39,180.87	$ 46,095.14
HETTINGER	$ 12,455.93	$ 18,683.90	$ 21,175.08	$ 24,911.86
KIDDER	$ 10,901.32	$ 16,351.98	$ 18,532.24	$ 21,802.64
LAMOURE	$ 23,643.02	$ 35,464.53	$ 40,193.13	$ 47,286.04
LOGAN	$ 7,283.70	$ 10,925.55	$ 12,382.29	$ 14,567.40
MCHENRY	$ 37,169.90	$ 55,754.85	$ 63,188.83	$ 74,339.80
MCINTOSH	$ 13,106.95	$ 19,660.43	$ 22,281.82	$ 26,213.90
MCKENZIE	$ 1,134,431.08	$ 1,701,646.62	$ 1,928,532.84	$ 2,268,862.16
MCLEAN	$ 75,156.46	$ 112,734.69	$ 127,765.98	$ 150,312.92
MERCER	$ 66,583.24	$ 99,874.86	$ 113,191.51	$ 133,166.48
MORTON	$ 523,148.77	$ 784,723.16	$ 889,352.91	$ 1,046,297.54
MOUNTRAIL	$ 400,179.70	$ 600,269.55	$ 680,305.49	$ 800,359.40
NELSON	$ 13,247.06	$ 19,870.59	$ 22,520.00	$ 26,494.12
OLIVER	$ 12,309.47	$ 18,464.21	$ 20,926.10	$ 24,618.94
PEMBINA	$ 65,738.03	$ 98,607.04	$ 111,754.65	$ 131,476.06
PIERCE	$ 33,874.22	$ 50,811.33	$ 57,586.17	$ 67,748.44
RAMSEY	$ 126,377.15	$ 189,565.73	$ 214,841.16	$ 252,754.30
RANSOM	$ 47,976.98	$ 71,965.47	$ 81,560.87	$ 95,953.96
RENVILLE	$ 13,604.45	$ 20,406.68	$ 23,127.57	$ 27,208.90
RICHLAND	$ 174,626.59	$ 261,939.89	$ 296,865.20	$ 349,253.18
ROLETTE	$ 18,429.98	$ 27,644.97	$ 31,330.97	$ 36,859.96
SARGENT	$ 42,367.10	$ 63,550.65	$ 72,024.07	$ 84,734.20
SHERIDAN	$ 5,368.50	$ 8,052.75	$ 9,126.45	$ 10,737.00
SIOUX	$ 1,144.75	$ 1,717.13	$ 1,946.08	$ 2,289.50
SLOPE	$ 2,629.10	$ 3,943.65	$ 4,469.47	$ 5,258.20
STARK	$ 828,274.14	$ 1,242,411.21	$ 1,408,066.04	$ 1,656,548.28
STEELE	$ 15,695.96	$ 23,543.94	$ 26,683.13	$ 31,391.92
STUTSMAN	$ 246,343.14	$ 369,514.71	$ 418,783.34	$ 492,686.28
TOWNER	$ 14,226.97	$ 21,340.46	$ 24,185.85	$ 28,453.94
TRAILL	$ 103,143.98	$ 154,715.97	$ 175,344.77	$ 206,287.96
WALSH	$ 54,515.19	$ 81,772.79	$ 92,675.82	$ 109,030.38
WARD	$ 1,110,092.46	$ 1,665,138.69	$ 1,887,157.18	$ 2,220,184.92
WELLS	$ 37,582.95	$ 56,374.43	$ 63,891.02	$ 75,165.90
WILLIAMS	$ 1,443,195.64	$ 2,164,793.46	$ 2,453,432.59	$ 2,886,391.28
Totals	**$ 14,551,984.52**	**$ 21,827,976.78**	**$ 24,738,373.68**	**$ 29,103,969.04**

AGRICULTURAL PROPERTY				
County	10 Mill Relief Per 160 Acre Tax Bill	15 Mill Relief Per 160 Acre Tax Bill	17 Mill Relief Per 160 Acre Tax Bill	20 Mill Relief Per 160 Acre Tax Bill
ADAMS	$ 30.15	$ 45.23	$ 51.26	$ 60.31
BARNES	$ 72.80	$ 109.21	$ 123.77	$ 145.61
BENSON	$ 55.64	$ 83.46	$ 94.59	$ 111.28
BILLINGS	$ 18.98	$ 28.47	$ 32.27	$ 37.96
BOTTINEAU	$ 49.92	$ 74.88	$ 84.86	$ 99.84
BOWMAN	$ 28.78	$ 43.16	$ 48.92	$ 57.55
BURKE	$ 36.90	$ 55.35	$ 62.73	$ 73.80
BURLEIGH	$ 37.79	$ 56.69	$ 64.25	$ 75.58
CASS	$ 94.00	$ 140.99	$ 159.79	$ 187.99
CAVALIER	$ 72.06	$ 108.10	$ 122.51	$ 144.13
DICKEY	$ 67.05	$ 100.57	$ 113.98	$ 134.09
DIVIDE	$ 37.49	$ 56.24	$ 63.74	$ 74.99
DUNN	$ 21.26	$ 31.89	$ 36.14	$ 42.52
EDDY	$ 44.87	$ 67.31	$ 76.28	$ 89.75
EMMONS	$ 47.42	$ 71.13	$ 80.62	$ 94.84
FOSTER	$ 63.96	$ 95.94	$ 108.74	$ 127.93
GOLDEN VALLEY	$ 23.65	$ 35.48	$ 40.21	$ 47.31
GRAND FORKS	$ 76.46	$ 114.69	$ 129.98	$ 152.91
GRANT	$ 30.24	$ 45.36	$ 51.41	$ 60.48
GRIGGS	$ 56.22	$ 84.33	$ 95.57	$ 112.43
HETTINGER	$ 40.47	$ 60.70	$ 68.79	$ 80.93
KIDDER	$ 27.40	$ 41.10	$ 46.58	$ 54.80
LAMOURE	$ 82.81	$ 124.21	$ 140.78	$ 165.62
LOGAN	$ 37.49	$ 56.23	$ 63.73	$ 74.97
MCHENRY	$ 40.81	$ 61.22	$ 69.38	$ 81.62
MCINTOSH	$ 45.18	$ 67.77	$ 76.81	$ 90.36
MCKENZIE	$ 23.29	$ 34.94	$ 39.59	$ 46.58
MCLEAN	$ 61.51	$ 92.26	$ 104.56	$ 123.01
MERCER	$ 36.16	$ 54.24	$ 61.47	$ 72.32
MORTON	$ 29.40	$ 44.10	$ 49.97	$ 58.79
MOUNTRAIL	$ 36.01	$ 54.02	$ 61.22	$ 72.02
NELSON	$ 49.43	$ 74.14	$ 84.03	$ 98.85
OLIVER	$ 32.67	$ 49.00	$ 55.53	$ 65.33
PEMBINA	$ 97.38	$ 146.08	$ 165.55	$ 194.77
PIERCE	$ 50.85	$ 76.27	$ 86.44	$ 101.69
RAMSEY	$ 53.18	$ 79.76	$ 90.40	$ 106.35
RANSOM	$ 67.66	$ 101.49	$ 115.02	$ 135.32
RENVILLE	$ 56.04	$ 84.06	$ 95.27	$ 112.08
RICHLAND	$ 92.12	$ 138.18	$ 156.61	$ 184.24
ROLETTE	$ 51.46	$ 77.20	$ 87.49	$ 102.93
SARGENT	$ 81.80	$ 122.70	$ 139.06	$ 163.60
SHERIDAN	$ 41.77	$ 62.66	$ 71.02	$ 83.55
SIOUX	$ 26.73	$ 40.10	$ 45.44	$ 53.46
SLOPE	$ 28.45	$ 42.68	$ 48.37	$ 56.90
STARK	$ 35.82	$ 53.73	$ 60.89	$ 71.63
STEELE	$ 82.51	$ 123.76	$ 140.27	$ 165.02
STUTSMAN	$ 61.16	$ 91.74	$ 103.98	$ 122.33
TOWNER	$ 60.96	$ 91.45	$ 103.64	$ 121.93
TRAILL	$ 105.43	$ 158.14	$ 179.23	$ 210.86
WALSH	$ 75.22	$ 112.83	$ 127.88	$ 150.45
WARD	$ 45.20	$ 67.80	$ 76.84	$ 90.40
WELLS	$ 65.30	$ 97.94	$ 111.00	$ 130.59
WILLIAMS	$ 37.26	$ 55.88	$ 63.33	$ 74.51
Totals	**$ 2,724.56**	**$ 4,086.83**	**$ 4,631.74**	**$ 5,449.11**

CENTRALLY ASSESSED PROPERTY				
County	10 Mill Relief Per Company	15 Mill Relief Per Company	17 Mill Relief Per Company	20 Mill Relief Per Company
ADAMS	$ 1,624.16	$ 2,436.24	$ 2,761.07	$ 3,248.32
BARNES	$ 5,452.38	$ 8,178.57	$ 9,269.05	$ 10,904.76
BENSON	$ 1,364.04	$ 2,046.06	$ 2,318.87	$ 2,728.08
BILLINGS	$ 3,293.50	$ 4,940.24	$ 5,598.94	$ 6,586.99
BOTTINEAU	$ 1,948.79	$ 2,923.18	$ 3,312.94	$ 3,897.58
BOWMAN	$ 3,205.20	$ 4,807.80	$ 5,448.84	$ 6,410.40
BURKE	$ 2,759.73	$ 4,139.59	$ 4,691.54	$ 5,519.46
BURLEIGH	$ 5,491.75	$ 8,237.63	$ 9,335.98	$ 10,983.50
CASS	$ 6,406.97	$ 9,610.46	$ 10,891.86	$ 12,813.95
CAVALIER	$ 3,114.28	$ 4,671.42	$ 5,294.27	$ 6,228.56
DICKEY	$ 1,447.54	$ 2,171.30	$ 2,460.81	$ 2,895.07
DIVIDE	$ 6,136.19	$ 9,204.29	$ 10,431.53	$ 12,272.39
DUNN	$ 14,787.50	$ 22,181.24	$ 25,138.74	$ 29,574.99
EDDY	$ 1,187.59	$ 1,781.38	$ 2,018.90	$ 2,375.18
EMMONS	$ 5,958.27	$ 8,937.40	$ 10,129.05	$ 11,916.53
FOSTER	$ 2,589.24	$ 3,883.86	$ 4,401.70	$ 5,178.48
GOLDEN VALLEY	$ 1,765.34	$ 2,648.02	$ 3,001.08	$ 3,530.69
GRAND FORKS	$ 5,397.20	$ 8,095.79	$ 9,175.23	$ 10,794.39
GRANT	$ 812.24	$ 1,218.36	$ 1,380.81	$ 1,624.49
GRIGGS	$ 2,473.43	$ 3,710.14	$ 4,204.82	$ 4,946.85
HETTINGER	$ 2,103.44	$ 3,155.16	$ 3,575.85	$ 4,206.88
KIDDER	$ 1,393.95	$ 2,090.92	$ 2,369.71	$ 2,787.89
LAMOURE	$ 839.16	$ 1,258.74	$ 1,426.58	$ 1,678.33
LOGAN	$ 344.92	$ 517.38	$ 586.36	$ 689.83
MCHENRY	$ 4,472.05	$ 6,708.08	$ 7,602.49	$ 8,944.11
MCINTOSH	$ 1,276.32	$ 1,914.47	$ 2,169.74	$ 2,552.63
MCKENZIE	$ 35,021.59	$ 52,532.39	$ 59,536.71	$ 70,043.19
MCLEAN	$ 1,567.76	$ 2,351.64	$ 2,665.19	$ 3,135.52
MERCER	$ 2,364.05	$ 3,546.08	$ 4,018.89	$ 4,728.11
MORTON	$ 8,512.54	$ 12,768.81	$ 14,471.31	$ 17,025.08
MOUNTRAIL	$ 15,119.45	$ 22,679.17	$ 25,703.06	$ 30,238.89
NELSON	$ 4,094.19	$ 6,141.29	$ 6,960.12	$ 8,188.38
OLIVER	$ 878.29	$ 1,317.43	$ 1,493.09	$ 1,756.58
PEMBINA	$ 10,774.01	$ 16,161.01	$ 18,315.81	$ 21,548.01
PIERCE	$ 2,165.34	$ 3,248.01	$ 3,681.08	$ 4,330.68
RAMSEY	$ 2,082.97	$ 3,124.46	$ 3,541.05	$ 4,165.94
RANSOM	$ 3,457.62	$ 5,186.43	$ 5,877.95	$ 6,915.24
RENVILLE	$ 1,064.26	$ 1,596.39	$ 1,809.24	$ 2,128.52
RICHLAND	$ 3,377.10	$ 5,065.65	$ 5,741.08	$ 6,754.21
ROLETTE	$ 369.22	$ 553.83	$ 627.67	$ 738.43
SARGENT	$ 3,506.41	$ 5,259.61	$ 5,960.89	$ 7,012.81
SHERIDAN	$ 568.05	$ 852.08	$ 965.69	$ 1,136.11
SIOUX	$ 26.88	$ 40.32	$ 45.70	$ 53.76
SLOPE	$ 1,097.48	$ 1,646.22	$ 1,865.72	$ 2,194.97
STARK	$ 4,548.19	$ 6,822.28	$ 7,731.92	$ 9,096.37
STEELE	$ 3,975.06	$ 5,962.59	$ 6,757.60	$ 7,950.12
STUTSMAN	$ 3,993.41	$ 5,990.12	$ 6,788.80	$ 7,986.82
TOWNER	$ 274.44	$ 411.66	$ 466.55	$ 548.88
TRAILL	$ 1,895.71	$ 2,843.57	$ 3,222.71	$ 3,791.42
WALSH	$ 3,452.24	$ 5,178.36	$ 5,868.80	$ 6,904.47
WARD	$ 6,987.43	$ 10,481.14	$ 11,878.62	$ 13,974.85
WELLS	$ 3,648.25	$ 5,472.37	$ 6,202.02	$ 7,296.50
WILLIAMS	$ 22,968.03	$ 34,452.04	$ 39,045.65	$ 45,936.06
Totals	**$ 235,435.11**	**$ 353,152.67**	**$ 400,239.69**	**$ 470,870.23**

Individual Income Tax Comparison							
3 Tier System: 0%, 1.75%, and 2.5%							
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings	Average Savings Per Return
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938	$187
2	2.04%	1.75%	248,824	$267,016,822	$108,977,825	$158,038,997	$635
3	2.27%	1.75%	52,901	$120,131,628	$77,904,388	$42,227,240	$798
4	2.64%	2.50%	27,090	$106,078,279	$80,255,053	$25,823,226	$953
5	2.90%	2.50%	28,907	$361,641,189	$301,508,983	$60,132,206	$2,080
Biennium Totals			916,116	$959,102,856	$568,646,249	**$390,456,607**	$426

Individual Income Tax Comparison							
3 Tier System: 0%, 1.85%, and 2.5%							
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings	Average Savings Per Return
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938	$187
2	2.04%	1.85%	248,824	$267,016,822	$115,530,241	$151,486,581	$609
3	2.27%	1.85%	52,901	$120,131,628	$82,524,023	$37,607,605	$711
4	2.64%	2.50%	27,090	$106,078,279	$83,276,295	$22,801,984	$842
5	2.90%	2.50%	28,907	$361,641,189	$303,370,594	$58,270,595	$2,016
Biennium Totals			916,116	$959,102,856	$584,701,153	**$374,401,703**	$409

Individual Income Tax Comparison							
3 Tier System: 0%, 1.95%, and 2.5%							
Bracket Level	Original Rate	Updated Rate	Return Count	Original Net Tax Liability	3 Tier System Net Tax Liability	Taxpayer Savings	Average Savings Per Return
1	1.10%	0.00%	558,394	$104,234,938	$0	$104,234,938	$187
2	2.04%	1.95%	248,824	$267,016,822	$122,096,945	$144,919,877	$582
3	2.27%	1.95%	52,901	$120,131,628	$87,158,622	$32,973,006	$623
4	2.64%	2.50%	27,090	$106,078,279	$86,312,756	$19,765,523	$730
5	2.90%	2.50%	28,907	$361,641,189	$305,237,329	$56,403,860	$1,951
Biennium Totals			916,116	$959,102,856	$600,805,652	**$358,297,204**	$391

23.0351.02012
Title.

Prepared by the Legislative Council staff for
Representative Headland
April 6, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1158

That the Senate recede from its amendments as printed on pages 1468 through 1485 of the House Journal and pages 1076 through 1095 of the Senate Journal and that House Bill No. 1158 be amended as follows:

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 57-38 of the North Dakota Century Code, relating to an individual income tax credit; to amend and reenact sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, subdivision c of subsection 1 of section 57-20-07.1, and sections 57-20-07.3, 57-38-30.3, and 57-38-75 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, school district levy authority, information displayed on property tax statements, a credit against payments in lieu of taxes paid by centrally assessed companies, the imposition of a flat income tax rate of one and ninety-nine hundredths percent for individuals, estates, and trusts, calculation of individual income tax based on general fund revenues, and rounding rules; to repeal sections 15.1-27-04.3, 15.1-27-15.1, 15.1-27-20.2, and 57-38-01.28 of the North Dakota Century Code, relating to adjustments to state aid payments and the marriage penalty credit; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. ~~**(Effective through June 30, 2025)**~~

~~1.~~ ~~To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a.~~ ~~All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b.~~ ~~An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c.~~ ~~An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1)~~ ~~Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the 2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Mobile home tax revenue;~~

~~(2) Telecommunications tax revenue; and~~

~~(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school~~

~~district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2.~~ ~~a.~~ ~~The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.~~

~~b.~~ ~~For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c.~~ ~~Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3.~~ ~~a.~~ ~~For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1)~~ ~~The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2)~~ ~~One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3)~~ ~~The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.~~

~~b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1) For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3) For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition~~

~~maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5)~~ ~~For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6)~~ ~~For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4.~~ ~~After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a.~~ ~~Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b.~~ ~~Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1)~~ ~~Tuition revenue shall be adjusted as follows:~~

~~(a)~~ ~~In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for~~

~~which the state has not entered a cross-border education contract; and~~

~~(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b. The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed

by the superintendent of public instruction in accordance with section 15.1-02-08;

(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

(a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

(b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

(c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~, until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~ and~~

d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.

b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2)~~ ~~For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

a. Subtract an amount equal to ~~sixty~~fifty mills multiplied by the taxable valuation of the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

b. The total number of mills levied in the previous calendar year by each school district for all purposes; and

c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.

SECTION 2. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall utilize an amount equal to ~~sixty~~fifty mills times twenty percent of the state average valuation per student multiplied by the number of weighted student units in the district.

SECTION 3. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~twenty-nine thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~seven thousand ~~six~~four hundred twenty-five dollars of taxable valuation.

      (2) If the person's income is in excess of ~~twenty-two~~twenty-nine thousand dollars and not in excess of ~~twenty-six~~thirty-four thousand dollars, a reduction of eighty percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~four~~five thousand ~~five~~eight hundred fifty dollars of taxable valuation.

      (3) If the person's income is in excess of ~~twenty-six~~thirty-four thousand dollars and not in excess of ~~thirty~~forty-four thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~three~~four thousand ~~three~~five hundred ~~seventy-five~~ dollars of taxable valuation.

      (4) If the person's income is in excess of ~~thirty~~forty-four thousand dollars and not in excess of ~~thirty-four~~fifty-seven thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two

thousand ~~two~~nine hundred ~~fifty~~twenty-five dollars of taxable valuation.

(5) If the person's income is in excess of ~~thirty-four~~fifty-seven thousand dollars and not in excess of ~~thirty-eight~~seventy-four thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand ~~one~~five hundred ~~twenty-five~~seventy-five dollars of taxable valuation.

(6) If the person's income is in excess of ~~thirty-eight~~seventy-four thousand dollars and not in excess of ~~forty-two~~ninety-six thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine hundred ~~sixty-three~~ dollars of taxable valuation.

(7) On January first of each year, the tax commissioner shall prescribe new income limitations that apply in lieu of the income limitations provided in paragraphs 1 through 6 by adjusting the income limitations applicable to the previous taxable year by the consumer price index. For purposes of this paragraph, "consumer price index" means the percentage change in the consumer price index for all urban consumers in the midwest region as determined by the United States department of labor, bureau of labor statistics, for the most recent year ending December thirty-first.

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds ~~five~~seven hundred fifty thousand dollars, including the value of any assets divested within the last three years.

h. The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

i. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 4. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 5. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.

2. For purposes of this section:

    a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.

    b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.

    c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.

    d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.

    e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

    a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:

   a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.

   b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 6. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.

   a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.

   b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

   c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

   d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

   e. For taxable years beginning after 2012:

      (1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

      (2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

      (3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~sixty mills on the dollar of the taxable valuation of the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 7. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6. Nothing in this section limits the board of a school district from levying:~~

~~a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on~~

~~any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~School district levies. (Effective for taxable years beginning after December 31, 2024)~~

1. The board of a school district may levy a tax not exceeding the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~fifty mills on the taxable valuation of the district, for ~~any purpose related to the provision of educational services~~the school district's local contribution to the costs of education. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

   a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

   b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 8. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. Provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus the ~~number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Sixty mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~fifty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 9. AMENDMENT. Section 57-20-07.3 of the North Dakota Century Code is amended and reenacted as follows:

57-20-07.3. Centrally assessed company credit against payments in lieu of taxes.

1. The owner, operator, or lessee of transmission lines, for which payments in lieu of property taxes are assessed by the state board of equalization under section 57-06-17.3, is entitled to a credit against tax in the amount provided in subsection 3. The credit for each transmission company must be allocated to the counties in the same manner as the tax collected from that company is allocated.

2. The owner, operator, or lessee of electric transmission or distribution property, for which payments in lieu of property taxes are assessed by the state board of equalization under sections 57-33.2-02 or 57-33.2-03, is entitled to a credit against the transmission or distribution tax in the amount provided in subsection 3. The credit for each transmission or distribution company must be allocated and distributed to counties in the same manner as the tax collected from that company is allocated.

3. The amount of credit is ~~determined by multiplying~~ the sum of the following:

a. The company's assessed tax by a fraction, the numerator of which is the total of all formula payments calculated for the subsequent calendar year under section 50-35-03 and the denominator of which is the total statewide ad valorem property tax levied in the prior taxable year; and

b. The company's assessed tax multiplied by a fraction, the numerator of which is equal to ten mills multiplied by the taxable valuation of property in all school districts and the denominator of which is the total statewide ad valorem property tax levied in the prior taxable year.

4. The tax commissioner shall annually calculate the amount of credit to which a company is entitled under this section.

SECTION 10. A new section to chapter 57-38 of the North Dakota Century Code is created and enacted as follows:

Individual income tax credit.

1. A resident of this state is entitled to a nonrefundable credit against the resident's income tax liability as determined under section 57-38-30.3 for the taxable year.

2. Based on an individual's filing status used for federal income tax purposes, the maximum credit that may be claimed is:

   a. For single, married filing separately, and head of household filing status, eight hundred dollars.

   b. For married filing jointly and surviving spouse filing status, one thousand six hundred dollars.

3. The amount claimed may not exceed the amount of the resident's income tax liability as determined under this chapter for the taxable year. Any credit amount exceeding a resident's income tax liability for the taxable year may not be claimed as a carryback or carryforward.

SECTION 11. AMENDMENT. Section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30.3. Individual, estate, and trust income tax.

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals, estates, and trusts is equal to one and ninety-nine hundredths percent of North Dakota taxable income~~ multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection~~.

   ~~a. Single, other than head of household or surviving spouse.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10%~~	~~$0~~
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

~~b. Married filing jointly and surviving spouse.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

~~c. Married filing separately.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

~~d. Head of household.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~

~~e. Estates and trusts.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$2,500~~	~~1.10%~~	~~$0~~
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04%~~	~~$2,500~~
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27%~~	~~$5,900~~
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~

~~f.~~a. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

~~g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.~~

~~h.~~b. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

2. For purposes of this section, "North Dakota taxable income" means the federal taxable income of an individual, estate, or trust as computed under the Internal Revenue Code of 1986, as amended, adjusted as follows:

a. Reduced by interest income from obligations of the United States and income exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

b. Reduced by the portion of a distribution from a qualified investment fund described in section 57-38-01 which is attributable to investments by the qualified investment fund in obligations of the United States, obligations of North Dakota or its political subdivisions, and any other obligation the interest from which is exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

c. Reduced by the amount equal to the earnings that are passed through to a taxpayer in connection with an allocation and apportionment to North Dakota under section 57-38-01.35.

d. Reduced by forty percent of:

(1) The excess of the taxpayer's net long-term capital gain for the taxable year over the net short-term capital loss for that year, as computed for purposes of the Internal Revenue Code of 1986, as amended. The adjustment provided by this subdivision is allowed only to the extent the net long-term capital gain is allocated to this state.

(2) Qualified dividends as defined under Internal Revenue Code section 1(h)(11), added by section 302(a) of the Jobs and Growth Tax Relief Reconciliation Act of 2003 [Pub. L. 108-27; 117 Stat. 752; 2 U.S.C. 963 et seq.], but only if taxed at a federal income tax rate that is lower than the regular federal income tax rates applicable to ordinary income. If, for any taxable year, qualified dividends are taxed at the regular federal income tax rates applicable to ordinary income, the reduction allowed under this subdivision is equal to thirty percent of all dividends included in federal taxable income. The adjustment provided by this subdivision is allowed only to the extent the qualified dividend income is allocated to this state.

e. Increased by the amount of a lump sum distribution for which income averaging was elected under section 402 of the Internal Revenue Code of 1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the taxpayer received the lump sum distribution while a nonresident of this state and the distribution is exempt from taxation by this state under federal law.

f. Increased by an amount equal to the losses that are passed through to a taxpayer in connection with an allocation and apportionment to North Dakota under section 57-38-01.35.

g. Reduced by the amount received by the taxpayer as payment for services performed when mobilized under title 10 United States Code federal service as a member of the national guard or reserve member of the armed forces of the United States. This subdivision does not apply to federal service while attending annual training, basic military training, or professional military education.

h. Reduced by income from a new and expanding business exempt from state income tax under section 40-57.1-04.

i. ~~Reduced by interest and income from bonds issued under chapter 11-37.~~

~~j.~~ Reduced by up to ten thousand dollars of qualified expenses that are related to a donation by a taxpayer or a taxpayer's dependent, while living, of one or more human organs to another human being for human organ transplantation. A taxpayer may claim the reduction in this subdivision only once for each instance of organ donation during the taxable year in which the human organ donation and the human organ transplantation occurs but if qualified expenses are incurred in more than one taxable year, the reduction for those expenses must be claimed in the year in which the expenses are incurred. For purposes of this subdivision:

(1) "Human organ transplantation" means the medical procedure by which transfer of a human organ is made from the body of one person to the body of another person.

(2) "Organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow.

(3) "Qualified expenses" means lost wages not compensated by sick pay and unreimbursed medical expenses as defined for federal income tax purposes, to the extent not deducted in computing federal taxable income, whether or not the taxpayer itemizes federal income tax deductions.

~~k.~~j. Increased by the amount of the contribution upon which the credit under section 57-38-01.21 is computed, but only to the extent that the contribution reduced federal taxable income.

~~l.~~k. Reduced by the amount of any payment received by a veteran or beneficiary of a veteran under section 37-28-03 or 37-28-04.

~~m.~~l. Reduced by the amount received by a taxpayer that was paid by an employer under paragraph 4 of subdivision a of subsection 2 of section 57-38-01.25 to hire the taxpayer for a hard-to-fill position under section 57-38-01.25, but only to the extent the amount received by the taxpayer is included in federal taxable income. The reduction applies only if the employer is entitled to the credit under section 57-38-01.25. The taxpayer must attach a statement from the employer in which the employer certifies that the employer is entitled to the credit under section 57-38-01.25 and which specifically identified the type of payment and the amount of the exemption under this section.

~~n.~~m. Reduced by the amount up to a maximum of five thousand dollars, or ten thousand dollars if a joint return is filed, for contributions made under a higher education savings plan administered by the Bank of North Dakota, pursuant to section 6-09-38.

~~o.~~n. Reduced by the amount of income of a taxpayer, who resides anywhere within the exterior boundaries of a reservation situated in this state or situated both in this state and in an adjoining state and who is an enrolled member of a federally recognized Indian tribe, from activities or sources anywhere within the exterior boundaries of a reservation situated in this state or both situated in this state and in an adjoining state.

~~p.~~o. For married individuals filing jointly, reduced by an amount equal to the excess of the recomputed itemized deductions or standard deduction over the amount of the itemized deductions or standard deduction deducted in computing federal taxable income. For purposes of this subdivision, "itemized deductions or standard deduction" means the amount under section 63 of the Internal Revenue Code that the married individuals deducted in computing their federal taxable income and "recomputed itemized deductions or standard deduction" means an amount determined by computing the itemized deductions or standard deduction in a manner that replaces the basic standard deduction under section 63(c)(2) of the Internal Revenue Code for married individuals filing jointly with an amount equal to double the amount of the basic standard deduction under section 63(c)(2) of the Internal Revenue Code for a single individual other than a head of household and surviving spouse. If the married individuals elected under section 63(e) of the Internal Revenue Code to deduct itemized deductions in computing their federal taxable income even though the amount of the allowable standard deduction is greater, the reduction under this subdivision is not allowed. Married individuals filing jointly shall compute the available reduction under this subdivision in a manner prescribed by the tax commissioner.

~~q.~~p. Reduced by an amount equal to four thousand one hundred fifty dollars for taxable year 2018, for each birth resulting in stillbirth, as defined in section 23-02.1-01, for which a fetal death certificate has been filed under section 23-02.1-20. For taxable years beginning after December 31, 2018, the deduction amount must be adjusted annually on January first of each year by the cost-of-living adjustment. For purposes of this subdivision, "cost-of-living adjustment" means the percentage increase in the consumer price index for all urban consumers in the midwest region as determined by the United States department of labor, bureau of labor statistics, for the most recent year ending December thirty-first. The exemption may only be claimed in the taxable year in which the stillbirth occurred.

~~r.~~q. Reduced by the amount of expenses incurred by an employee which are directly related to the attainment of higher education or career and technical education which are reimbursed by the employee's employer, but only to the extent the amount of reimbursement is reported as federal taxable income.

~~s.~~r. Reduced by the amount received by a taxpayer as retired military personnel benefits, including retired military personnel benefits paid to the surviving spouse of a deceased retired member of the armed forces of the United States, a reserve component of the armed forces of the United States, or the national guard, but only to the extent the amount was included in federal taxable income.

~~t.~~s. Reduced by the amount of social security benefits included in a taxpayer's federal adjusted gross income under section 86 of the Internal Revenue Code.

3. The same filing status used when filing federal income tax returns must be used when filing state income tax returns.

4. a. A resident individual, estate, or trust is entitled to a credit against the tax imposed under this section for the amount of income tax paid by the taxpayer for the taxable year by another state or territory of the United States or the District of Columbia on income derived from sources in those jurisdictions that is also subject to tax under this section.

   b. For an individual, estate, or trust that is a resident of this state for the entire taxable year, the credit allowed under this subsection may not exceed an amount equal to the tax imposed under this section multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction divided by federal adjusted gross income less the amounts under subdivisions a and b of subsection 2.

   c. For an individual, estate, or trust that is a resident of this state for only part of the taxable year, the credit allowed under this subsection may not exceed the lesser of the following:

      (1) The tax imposed under this chapter multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction received while a resident of this state divided by federal adjusted gross income derived from North Dakota sources less the amounts under subdivisions a and b of subsection 2.

      (2) The tax paid to the other jurisdiction multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction received while a resident of this state divided by federal adjusted gross income derived from sources in the other states.

   d. The tax commissioner may require written proof of the tax paid to another state. The required proof must be provided in a form and manner as determined by the tax commissioner.

5. Individuals, estates, or trusts that file an amended federal income tax return changing their federal taxable income figure for a year for which an election to file state income tax returns has been made under this section shall file an amended state income tax return to reflect the changes on the federal income tax return.

6. The tax commissioner may prescribe procedures and guidelines to prevent requiring income that had been previously taxed under this chapter from becoming taxed again because of the provisions of this section and may prescribe procedures and guidelines to prevent any income from becoming exempt from taxation because of the provisions of this section if it would otherwise have been subject to taxation under the provisions of this chapter.

7. A taxpayer filing a return under this section is entitled to the following tax credits:

   a. Family care tax credit under section 57-38-01.20.

   b. Renaissance zone tax credits under sections 40-63-04, 40-63-06, and 40-63-07.

c. Agricultural business investment tax credit under section 57-38.6-03.

d. Seed capital investment tax credit under section 57-38.5-03.

e. Planned gift tax credit under section 57-38-01.21.

f. Biodiesel fuel or green diesel fuel tax credits under sections 57-38-01.22 and 57-38-01.23.

g. Internship employment tax credit under section 57-38-01.24.

h. Workforce recruitment credit under section 57-38-01.25.

i. ~~Marriage penalty credit under section 57-38-01.28.~~

~~j.~~ Research and experimental expenditures under section 57-38-30.5.

~~k.~~j. Geothermal energy device installation credit under section 57-38-01.8.

~~l.~~k. Long-term care partnership plan premiums income tax credit under section 57-38-29.3.

~~m.~~l. Employer tax credit for salary and related retirement plan contributions of mobilized employees under section 57-38-01.31.

~~n.~~m. Income tax credit for passthrough entity contributions to private education institutions under section 57-38-01.7.

~~o.~~n. Angel investor tax credit under section 57-38-01.26.

~~p.~~o. Twenty-first century manufacturing workforce incentive under section 57-38-01.36 (effective for the first four taxable years beginning after December 31, 2018).

~~q.~~p. Income tax credit for employment of individuals with developmental disabilities or severe mental illness under section 57-38-01.16.

~~r. Individual income tax credit under section 57-38-01.37 (effective for the first two taxable years beginning after December 31, 2020).~~

q. Individual income tax credit under section 10 of this Act.

8. A taxpayer filing a return under this section is entitled to ~~the~~any exemption ~~provided~~for which the taxpayer qualifies under section 40-63-04.

9. a. If an individual taxpayer engaged in a farming business elects to average farm income under section 1301 of the Internal Revenue Code [26 U.S.C. 1301], the taxpayer may elect to compute tax under this subsection. If an election to compute tax under this subsection is made, the tax imposed by subsection 1 for the taxable year must be equal to the sum of the following:

(1) The tax computed under subsection 1 on North Dakota taxable income reduced by elected farm income.

(2) The increase in tax imposed by subsection 1 which would result if North Dakota taxable income for each of the three prior taxable years were increased by an amount equal to one-third of the elected farm income. However, if other provisions of this chapter other than this section were used to compute the tax for

any of the three prior years, the same provisions in effect for that prior tax year must be used to compute the increase in tax under this paragraph. For purposes of applying this paragraph to taxable years beginning before January 1, 2001, the increase in tax must be determined by recomputing the tax in the manner prescribed by the tax commissioner.

b. For purposes of this subsection, "elected farm income" means that portion of North Dakota taxable income for the taxable year which is elected farm income as defined in section 1301 of the Internal Revenue Code of 1986 [26 U.S.C. 1301], as amended, reduced by the portion of an exclusion claimed under subdivision d of subsection 2 that is attributable to a net long-term capital gain included in elected farm income.

c. The reduction in North Dakota taxable income under this subsection must be taken into account for purposes of making an election under this subsection for any subsequent taxable year.

d. The tax commissioner may prescribe rules, procedures, or guidelines necessary to administer this subsection.

10. ~~The tax commissioner may prescribe tax tables, to be used in computing the tax according to subsection 1, if the amounts of the tax tables are based on the tax rates set forth in subsection 1. If prescribed by the tax commissioner, the tables must be followed by every individual, estate, or trust determining a tax under this section~~If the actual general fund revenues exceed the estimated general fund revenues for the twelve-month period ending June thirtieth of an even-numbered year by at least ten percent as determined by the director of the office of management and budget, the rates under subsection 1 must be reduced by one-half percent for the subsequent tax year beginning after December thirty-first of an even-numbered year. The tax commissioner shall publish the reduced rates and notify taxpayers of the reduced rates by November first of an even-numbered year. The tax commissioner may determine the form and manner of publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. For purposes of this subsection:

a. "Estimated general fund revenues" means the estimated general fund revenues, excluding the July first of an odd-numbered year general fund balance, as reflected in the cash flow forecast developed by the director of the office of management and budget based on the total estimated general fund revenues for the biennium approved by the most recently adjourned special or regular session of the legislative assembly.

b. Any reductions to the rates under subsection 1 apply to tax years beginning after December 31, 2022.

c. The rate reductions must be equally applied to all tax brackets.

d. The reduced rates must be rounded to the nearest one-hundredth of a percent.

e. This subsection does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.

SECTION 12. AMENDMENT. Section 57-38-75 of the North Dakota Century Code is amended and reenacted as follows:

57-38-75. Rounding.

With respect to any amount required to be shown on any return, form, statement, or other document required to be filed with the tax commissioner and for purposes of amounts in tax tables prescribed under ~~subsection 12 of section 57-38-30.3 and~~ subsection 3 of section 57-38-59, the amount may be rounded to the nearest dollar. The cents must be disregarded if the cents amount to less than one-half dollar. If the cents amount to one-half dollar or more, the amount must be increased to the next whole dollar.

SECTION 13. REPEAL. Sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 14. REPEAL. Section 57-38-01.28 of the North Dakota Century Code is repealed.

SECTION 15. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $37,000,000, 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.

SECTION 16. EFFECTIVE DATE. Sections 3, 5, 6, 7, 9, 10, 11, 12, and 14 of this Act are effective for taxable years beginning after December 31, 2022."

Renumber accordingly

23.0351.02012

Sixty-eighth
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1158

Introduced by

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL ~~for an Act to amend and reenact subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the imposition of a flat income tax rate of one and one-half percent for individuals, estates, and trusts; and to provide an effective date.~~for an Act to create and enact a new section to chapter 57-38 of the North Dakota Century Code, relating to an individual income tax credit; to amend and reenact sections 15.1-27-04.1 and 15.1-27-04.2, subsection 1 of section 57-02-08.1, sections 57-15-01 and 57-15-01.1, subsection 1 of section 57-15-14, section 57-15-14.2, subdivision c of subsection 1 of section 57-20-07.1, and sections 57-20-07.3, 57-38-30.3, and 57-38-75 of the North Dakota Century Code, relating to the determination of state aid payments, the homestead tax credit, school district levy authority, information displayed on property tax statements, a credit against payments in lieu of taxes paid by centrally assessed companies, the imposition of a flat income tax rate of one and ninety-nine hundredths percent for individuals, estates, and trusts, calculation of individual income tax based on general fund revenues, and rounding rules; to repeal sections 15.1-27-04.3, 15.1-27-15.1, 15.1-27-20.2, and 57-38-01.28 of the North Dakota Century Code, relating to adjustments to state aid payments and the marriage penalty credit; to provide an appropriation; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

~~**SECTION 1. AMENDMENT.** Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:~~

~~1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but~~

~~who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. ForThe tax for an estate or trust, the schedule is equal to North Dakota taxable income multiplied by the rate in subdivision e must be used for purposes of this subsection. The tax to be computed for:~~

~~a. Single, other than head of household or surviving spousequalifying widow or widower is one and one-half percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10% $0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

~~b. Married filing jointly and surviving spousequalifying widow or widower is one and one-half percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

~~c. Married filing separately is one and one-half percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $31,300~~	~~1.10%~~	~~$0~~	
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

~~d. Head of household is one and one-half percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $50,200~~	~~1.10%~~	~~$0~~	
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~
~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~

~~e. Estates and trusts is one and one-half percent of North Dakota taxable income exceeding three thousand dollars.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0 $2,500~~	~~1.10%~~	~~$0~~	
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04% $2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27% $5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~

~~f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:~~

~~(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and~~

~~(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.~~

~~In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.~~

~~g. The tax commissioner shall prescribe new rate schedulesrates that apply in lieu of the schedulesrates set forth in subdivisions a through e. The new schedulesrates must be determined by increasing the minimum and maximumNorth Dakota taxable income threshold dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.~~

~~h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.~~

~~**SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after December 31, 2022.~~

SECTION 1. AMENDMENT. Section 15.1-27-04.1 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.1. Baseline funding - Establishment - Determination of state aid. ~~**(Effective through June 30, 2025)**~~

~~1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:~~

~~a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;~~

~~b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;~~

~~c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;~~

~~(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition received for the provision of an adult farm management program, and beginning in the 2021-22 school year, seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid, and an additional seventeen percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid each school year thereafter, until the 2024-25 school year when sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid must be excluded from the tuition calculation under this paragraph;~~

~~(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;~~

~~(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and~~

~~(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);~~

~~d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:~~

~~(1) Mobile home tax revenue;~~

~~(2) Telecommunications tax revenue; and~~

~~(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit; and~~

~~e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.~~

~~2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.~~

~~b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in~~

~~subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.~~

~~c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.~~

~~3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.~~

~~b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:~~

~~(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;~~

~~(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or~~

~~(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.~~

~~c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:~~

~~(1) For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3) For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the~~

~~transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(4) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(5) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~(6) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.~~

~~4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:~~

~~a. Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, except the amount in dollars subtracted for purposes of this subdivision may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent, adjusted pursuant to section 15.1-27-04.3; and~~

~~b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:~~

~~(1) Tuition revenue shall be adjusted as follows:~~

~~(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and~~

~~(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.~~

~~(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types~~

~~by the percentage of mills levied in 2020 by the school district for sinking and interest relative to the total mills levied in 2020 by the school district for all purposes.~~

~~5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.~~

~~6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.~~

~~7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:~~

~~a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;~~

~~b. The total number of mills levied in the previous calendar year by each school district for all purposes; and~~

~~c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.~~

~~**Baseline funding - Establishment - Determination of state aid. (Effective after June 30, 2025)**~~

1. To determine the amount of state aid payable to each district, the superintendent of public instruction shall establish each district's baseline funding. A district's baseline funding consists of:

   a. All state aid received by the district in accordance with chapter 15.1-27 during the 2018-19 school year;

   b. An amount equal to the property tax deducted by the superintendent of public instruction to determine the 2018-19 state aid payment;

   c. An amount equal to seventy-five percent of the revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Revenue reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(2) Mineral revenue received by the school district through direct allocation from the state treasurer and not reported under code 2000 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08;

(3) Tuition reported under code 1300 of the North Dakota school district financial accounting and reporting manual, as developed by the superintendent of public instruction in accordance with section 15.1-02-08, with the exception of ~~revenue~~:

(a) Revenue received specifically for the operation of an educational program provided at a residential treatment facility~~, tuition~~;

(b) Tuition received for the provision of an adult farm management program~~,~~; and ~~beginning~~

(c) Beginning in the:

[1] 2023-24 school year, fifty-one percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[2] 2024-25 school year, sixty-eight percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid;

[3] 2025-26 school year, eighty-five percent of tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid~~, until the~~; and

[4] 2026-27 school year, and each school year thereafter, ~~when~~ all tuition received under an agreement to educate students from a school district on an air force base with funding received through

federal impact aid ~~must be excluded from the tuition calculation under this paragraph~~;

(4) Revenue from payments in lieu of taxes on the distribution and transmission of electric power;

(5) Revenue from payments in lieu of taxes on electricity generated from sources other than coal; and

(6) Revenue from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3); ~~and~~

d. An amount equal to the total revenue received by the school district during the 2017-18 school year for the following revenue types:

(1) Mobile home tax revenue;

(2) Telecommunications tax revenue; and

(3) Revenue from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans credit~~.~~; and

e. Beginning with the 2020-21 school year, the superintendent shall reduce the baseline funding for any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2012-13 school year. The reduction must be proportional to the number of weighted student units in the grades that are offered through another school district relative to the total number of weighted student units the school district offered in the year before the school district became an elementary district. The reduced baseline funding applies to the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter. For districts that become an elementary district prior to the 2020-21 school year, the superintendent shall use the reduced baseline funding to calculate state aid for the 2020-21 school year and for each year thereafter.

2. a. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's 2017-18 weighted student units to determine the district's baseline funding per weighted student unit.

b. For any school district that becomes an elementary district pursuant to section 15.1-07-27 after the 2017-18 school year, the superintendent shall adjust the district's baseline funding per weighted student unit used to calculate state aid. The superintendent shall divide the district's baseline funding determined in subsection 1 by the district's weighted student units after the school district becomes an elementary district to determine the district's adjusted baseline funding per weighted student unit. The superintendent shall use the district's adjusted baseline funding per weighted student unit in the calculation of state aid for the first school year in which the school district becomes an elementary district and for each year thereafter.

c. Beginning with the 2021-22 school year and for each school year thereafter, the superintendent shall reduce the district's baseline funding per weighted student unit. Each year the superintendent shall calculate the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit provided in subsection 3. The superintendent shall reduce the district's baseline funding per weighted student unit by fifteen percent of the amount by which the district's baseline funding per weighted student unit exceeds the payment per weighted student unit for the 2021-22 school year. For each year thereafter, the reduction percentage is increased by an additional fifteen percent. However, the district's baseline funding per weighted student unit, after the reduction, may not be less than the payment per weighted student unit provided in subsection 3.

3. a. For the 2021-22 school year, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand one hundred thirty-six dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand one hundred thirty-six dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by fifteen percent and then the difference added to the amount determined in paragraph 1.

b. For the 2022-23 school year and each school year thereafter, the superintendent shall calculate state aid as the greater of:

(1) The district's weighted student units multiplied by ten thousand two hundred thirty-seven dollars;

(2) One hundred two percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units, not to exceed the district's 2017-18 baseline weighted student units, plus any weighted student units in excess of the 2017-18 baseline weighted student units multiplied by ten thousand two hundred thirty-seven dollars; or

(3) The district's baseline funding as established in subsection 1 less the amount in paragraph 1, with the difference reduced by thirty percent for the 2022-23 school year and the reduction percentage increasing by fifteen percent each school year thereafter until the difference is reduced to zero, and then the difference added to the amount determined in paragraph 1.

c. The superintendent also shall adjust state aid determined in this subsection to ensure the amount does not exceed the transition maximum as follows:

(1) ~~For the 2021-22 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(2) For the 2022-23 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, multiplied by the district's weighted student units from the previous school year.~~

~~(3)~~ For the 2023-24 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus twenty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(4)~~(2) For the 2024-25 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus forty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(5)~~(3) For the 2025-26 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus sixty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

~~(6)~~(4) For the 2026-27 school year, the transition maximum rate is one hundred ten percent of the district's baseline funding per weighted student unit, as established in subsection 2, plus eighty percent of the difference between the rate under paragraph 1 of subdivision b of this subsection and one hundred ten percent of the district's baseline funding per weighted student unit. The transition maximum is determined by multiplying the transition maximum rate, which may not exceed the rate under paragraph 1 of subdivision b of this subsection, by the district's weighted student units from the previous school year.

4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall:

a. Subtract an amount equal to ~~sixty~~fifty mills multiplied by the taxable valuation of the school district; and

b. Subtract an amount equal to seventy-five percent of all revenue types listed in subdivisions c and d of subsection 1. Before determining the deduction for seventy-five percent of all revenue types, the superintendent of public instruction shall adjust revenues as follows:

(1) Tuition revenue shall be adjusted as follows:

(a) In addition to deducting tuition revenue received specifically for the operation of an educational program provided at a residential treatment facility, tuition revenue received for the provision of an adult farm management program, and tuition received under an agreement to educate students from a school district on an air force base with funding received through federal impact aid as directed each school year in paragraph 3 of subdivision c of subsection 1, the superintendent of public instruction also shall reduce the total tuition reported by the school district by the amount of tuition revenue received for the education of students not residing in the state and for which the state has not entered a cross-border education contract; and

(b) The superintendent of public instruction also shall reduce the total tuition reported by admitting school districts meeting the requirements of subdivision e of subsection 2 of section 15.1-29-12 by the amount of tuition revenue received for the education of students residing in an adjacent school district.

(2) After adjusting tuition revenue as provided in paragraph 1, the superintendent shall reduce all remaining revenues from all revenue types by the percentage of mills levied in ~~2020~~2022 by the school district for

sinking and interest relative to the total mills levied in ~~2020~~2022 by the school district for all purposes.

5. The amount remaining after the computation required under subsection 4 is the amount of state aid to which a school district is entitled, subject to any other statutory requirements or limitations.

6. On or before June thirtieth of each year, the school board shall certify to the superintendent of public instruction the final average daily membership for the current school year.

7. For purposes of the calculation in subsection 4, each county auditor, in collaboration with the school districts, shall report the following to the superintendent of public instruction on an annual basis:

    a. The amount of revenue received by each school district in the county during the previous school year for each type of revenue identified in subdivisions c and d of subsection 1;

    b. The total number of mills levied in the previous calendar year by each school district for all purposes; and

    c. The number of mills levied in the previous calendar year by each school district for sinking and interest fund purposes.

SECTION 2. AMENDMENT. Section 15.1-27-04.2 of the North Dakota Century Code is amended and reenacted as follows:

15.1-27-04.2. State aid - Minimum local effort - Determination.

If a district's taxable valuation per student is less than twenty percent of the state average valuation per student, the superintendent of public instruction, for purposes of determining state aid in accordance with subsection 4 of section 15.1-27-04.1, shall utilize an amount equal to ~~sixty~~fifty mills times twenty percent of the state average valuation per student multiplied by the number of weighted student units in the district.

SECTION 3. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on

the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

c. The exemption must be determined according to the following schedule:

(1) If the person's income is not in excess of ~~twenty-two~~twenty-nine thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~seven thousand ~~six~~four hundred twenty-five dollars of taxable valuation.

(2) If the person's income is in excess of ~~twenty-two~~twenty-nine thousand dollars and not in excess of ~~twenty-six~~thirty-four thousand dollars, a reduction of eighty percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~four~~five thousand ~~five~~eight hundred fifty dollars of taxable valuation.

(3) If the person's income is in excess of ~~twenty-six~~thirty-four thousand dollars and not in excess of ~~thirty~~forty-four thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~three~~four thousand ~~three~~five hundred ~~seventy-five~~ dollars of taxable valuation.

(4) If the person's income is in excess of ~~thirty~~forty-four thousand dollars and not in excess of ~~thirty-four~~fifty-seven thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand ~~two~~nine hundred ~~fifty~~twenty-five dollars of taxable valuation.

(5) If the person's income is in excess of ~~thirty-four~~fifty-seven thousand dollars and not in excess of ~~thirty-eight~~seventy-four thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand ~~one~~five hundred ~~twenty-five~~seventy-five dollars of taxable valuation.

(6) If the person's income is in excess of ~~thirty-eight~~seventy-four thousand dollars and not in excess of ~~forty-two~~ninety-six thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine hundred ~~sixty-three~~ dollars of taxable valuation.

(7) On January first of each year, the tax commissioner shall prescribe new income limitations that apply in lieu of the income limitations provided in paragraphs 1 through 6 by adjusting the income limitations applicable to the previous taxable year by the consumer price index. For purposes of this paragraph, "consumer price index" means the percentage change in the consumer price index for all urban consumers in the midwest region as determined by the United States department of labor, bureau of labor statistics, for the most recent year ending December thirty-first.

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds ~~five~~seven hundred fifty thousand dollars, including the value of any assets divested within the last three years.

h. The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

i. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 4. AMENDMENT. Section 57-15-01 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01. Levy in specific amounts - Exceptions.

With the exception of special assessment taxes and such general taxes as may be definitely fixed by law, all state, county, city, township, school district, and park district taxes must be levied or voted in specific amounts of money. For purposes of communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the preceding taxable year, taxing districts shall express levies in terms of dollars rather than mills.

SECTION 5. AMENDMENT. Section 57-15-01.1 of the North Dakota Century Code is amended and reenacted as follows:

57-15-01.1. Protection of taxpayers and taxing districts.

Each taxing district may levy the lesser of the amount in dollars as certified in the budget of the governing body, or the amount in dollars as allowed in this section, subject to the following:

1. No taxing district may levy more taxes expressed in dollars than the amounts allowed by this section.
2. For purposes of this section:
   a. "Base year" means the taxing district's taxable year with the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year~~;~~.
   b. "Budget year" means the taxing district's year for which the levy is being determined under this section~~;~~.
   c. "Calculated mill rate" means the mill rate that results from dividing the base year taxes levied by the sum of the taxable value of the taxable property in the base year plus the taxable value of the property exempt by local discretion or charitable status, calculated in the same manner as the taxable property~~; and~~.
   d. "Property exempt by local discretion or charitable status" means property exempted from taxation as new or expanding businesses under chapter 40-57.1; improvements to property under chapter 57-02.2; or buildings belonging to institutions of public charity, new single-family residential or townhouse or

condominium property, property used for early childhood services, or pollution abatement improvements under section 57-02-08.

e. "Taxing district" means any political subdivision, other than a school district, empowered by law to levy taxes.

3. A taxing district may elect to levy the amount levied in dollars in the base year. Any levy under this section must be specifically approved by a resolution approved by the governing body of the taxing district. Before determining the levy limitation under this section, the dollar amount levied in the base year must be:

a. Reduced by an amount equal to the sum determined by application of the base year's calculated mill rate for that taxing district to the final base year taxable valuation of any taxable property and property exempt by local discretion or charitable status which is not included in the taxing district for the budget year but was included in the taxing district for the base year.

b. Increased by an amount equal to the sum determined by the application of the base year's calculated mill rate for that taxing district to the final budget year taxable valuation of any taxable property or property exempt by local discretion or charitable status which was not included in the taxing district for the base year but which is included in the taxing district for the budget year.

c. Reduced to reflect expired temporary mill levy increases authorized by the electors of the taxing district. ~~For purposes of this subdivision, an expired temporary mill levy increase does not include a school district general fund mill rate exceeding one hundred ten mills which has expired or has not received approval of electors for an extension under subsection 2 of section 57-64-03.~~

~~d. Reduced by the amount of state aid under chapter 15.1-27, which is determined by multiplying the budget year taxable valuation of the school district by the lesser of the base year mill rate of the school district minus sixty mills or fifty mills, if the base year is a taxable year before 2013.~~

4. In addition to any other levy limitation factor under this section, a taxing district may increase its levy in dollars to reflect new or increased mill levies authorized by the legislative assembly or authorized by the electors of the taxing district.

5. Under this section a taxing district may supersede any applicable mill levy limitations otherwise provided by law, or a taxing district may levy up to the mill levy limitations otherwise provided by law without reference to this section, but the provisions of this section do not apply to the following:
   a. Any irrepealable tax to pay bonded indebtedness levied pursuant to section 16 of article X of the Constitution of North Dakota.
   b. The one-mill levy for the state medical center authorized by section 10 of article X of the Constitution of North Dakota.

6. ~~A school district choosing to determine its levy authority under this section may apply subsection 3 only to the amount in dollars levied for general fund purposes under section 57-15-14 or, if the levy in the base year included separate general fund and special fund levies under sections 57-15-14 and 57-15-14.2, the school district may apply subsection 3 to the total amount levied in dollars in the base year for both the general fund and special fund accounts. School district levies under any section other than section 57-15-14 may be made within applicable limitations but those levies are not subject to subsection 3.~~

~~7.~~ Optional levies under this section may be used by any city or county that has adopted a home rule charter unless the provisions of the charter supersede state laws related to property tax levy limitations.

SECTION 6. AMENDMENT. Subsection 1 of section 57-15-14 of the North Dakota Century Code is amended and reenacted as follows:

1. Unless authorized by the electors of the school district in accordance with this section, a school district may not impose greater levies than those permitted under section 57-15-14.2.
   a. In any school district having a total population in excess of four thousand according to the last federal decennial census there may be levied any specific number of mills that upon resolution of the school board has been submitted to and approved by a majority of the qualified electors voting upon the question at any regular or special school district election.
   b. In any school district having a total population of fewer than four thousand, there may be levied any specific number of mills that upon resolution of the school

board has been approved by fifty-five percent of the qualified electors voting upon the question at any regular or special school election.

c. After June 30, 2009, in any school district election for approval by electors of increased levy authority under subsection 1 or 2, the ballot must specify the number of mills proposed for approval, and the number of taxable years for which that approval is to apply. After June 30, 2009, approval by electors of increased levy authority under subsection 1 or 2 may not be effective for more than ten taxable years.

d. The authority for a levy of up to a specific number of mills under this section approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy for taxable years after 2015 of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

e. For taxable years beginning after 2012:

(1) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that includes a taxable year before 2009, must be reduced by one hundred fifteen mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(2) The authority for a levy of up to a specific number of mills, approved by electors of a school district for any period of time that does not include a taxable year before 2009, must be reduced by forty mills as a precondition of receiving state aid in accordance with chapter 15.1-27.

(3) The authority for a levy of up to a specific number of mills, placed on the ballot in a school district election for electoral approval of increased levy authority under subdivision a or b, after June 30, ~~2013~~2022, must be stated as a specific number of mills of general fund levy authority and must include a statement that the statutory school district general fund levy limitation is ~~seventy~~sixty mills on the dollar of the taxable valuation of the school district.

f. The authority for an unlimited levy approved by electors of a school district before July 1, 2009, is terminated effective for taxable years after 2015. If the electors of a school district subject to this subsection have not approved a levy of up to a specific number of mills under this section by December 31, 2015, the school district levy limitation for subsequent years is subject to the limitations under ~~section 57-15-01.1 or~~ this section.

SECTION 7. AMENDMENT. Section 57-15-14.2 of the North Dakota Century Code is amended and reenacted as follows:

57-15-14.2. School district levies. ~~**(Effective for taxable years through December 31, 2024)**~~

~~1. The board of a school district may levy a tax not exceeding the amount in dollars that the school district levied for the prior year, plus twelve percent and the dollar amount of the adjustment required in section 15.1-27-04.3, up to a levy of seventy mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~2. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~3. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.~~

~~4. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.~~

~~5. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.~~

~~6. Nothing in this section limits the board of a school district from levying:~~

~~a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and~~

~~b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.~~

~~**School district levies. (Effective for taxable years beginning after December 31, 2024)**~~

1. The board of a school district may levy a tax not exceeding the amount in dollars that ~~the school district levied for the prior year, plus twelve percent, up to~~would be generated by a levy of ~~seventy~~fifty mills on the taxable valuation of the district, for ~~any purpose related to the provision of educational services~~the school district's local contribution to the costs of education. The proceeds of this levy must be deposited into the school district's general fund and may be used ~~in accordance with this subsection~~for any purposes related to the provision of educational services. The proceeds may not be transferred into any other fund.

2. The board of a school district may levy no more than ten mills on the taxable valuation of the district, for any purpose related to the provision of educational services. The proceeds of this levy must be deposited into the school district's general fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

3. The board of a school district may levy no more than twelve mills on the taxable valuation of the district, for miscellaneous purposes and expenses. The proceeds of this levy must be deposited into a special fund known as the miscellaneous fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~3.~~4. The board of a school district may levy no more than three mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with chapter 57-19.

~~4.~~5. The board of a school district may levy no more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with section 15.1-29-15. The proceeds of this levy must be deposited into a special fund known as the tuition fund and used in accordance with this subsection. The proceeds may not be transferred into any other fund.

~~5.~~6. The board of a school district may levy no more than five mills on the taxable valuation of the district, pursuant to section 57-15-15.1, for purposes of developing a school safety plan in accordance with section 15.1-09-60. The proceeds of this levy must be deposited into a special fund known as the school safety plan fund and used in accordance with this subsection.

~~6.~~7. Nothing in this section limits the board of a school district from levying:

a. Mills for a building fund, as permitted in sections 15.1-09-49 and 57-15-16; and

b. Mills necessary to pay principal and interest on the bonded debt of the district, including the mills necessary to pay principal and interest on any bonded debt incurred under section 57-15-17.1 before July 1, 2013.

SECTION 8. AMENDMENT. Subdivision c of subsection 1 of section 57-20-07.1 of the North Dakota Century Code is amended and reenacted as follows:

c. Provide information identifying the property tax savings provided by the state of North Dakota. The tax statement must include a line item that is entitled "legislative tax relief" and identifies the dollar amount of property tax savings realized by the taxpayer under chapter 50-34 for taxable years before 2019, chapter 50-35 for taxable years after 2018, and chapter 15.1-27.

(1) For purposes of this subdivision, legislative tax relief under chapter 15.1-27 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of mill levy reduction grant under chapter 57-64 for the 2012 taxable year plus the ~~number of mills determined by subtracting from the 2012 taxable year mill rate of the school district in which the parcel is located the~~ lesser of:

(a) ~~Fifty~~Sixty mills; or

(b) The 2012 taxable year mill rate of the school district minus ~~sixty~~fifty mills.

(2) Legislative tax relief under chapter 50-35 is determined by multiplying the taxable value for the taxable year for each parcel shown on the tax statement by the number of mills of relief determined by dividing the amount calculated in subsection 1 of section 50-35-03 for a human service zone by the taxable value of taxable property in the zone for the taxable year.

SECTION 9. AMENDMENT. Section 57-20-07.3 of the North Dakota Century Code is amended and reenacted as follows:

57-20-07.3. Centrally assessed company credit against payments in lieu of taxes.

1. The owner, operator, or lessee of transmission lines, for which payments in lieu of property taxes are assessed by the state board of equalization under section 57-06-17.3, is entitled to a credit against tax in the amount provided in subsection 3. The credit for each transmission company must be allocated to the counties in the same manner as the tax collected from that company is allocated.

2. The owner, operator, or lessee of electric transmission or distribution property, for which payments in lieu of property taxes are assessed by the state board of equalization under sections 57-33.2-02 or 57-33.2-03, is entitled to a credit against the transmission or distribution tax in the amount provided in subsection 3. The credit for each transmission or distribution company must be allocated and distributed to counties in the same manner as the tax collected from that company is allocated.

3. The amount of credit is ~~determined by multiplying~~ the sum of the following:

   a. The company's assessed tax by a fraction, the numerator of which is the total of all formula payments calculated for the subsequent calendar year under section 50-35-03 and the denominator of which is the total statewide ad valorem property tax levied in the prior taxable year; and

   b. The company's assessed tax multiplied by a fraction, the numerator of which is equal to ten mills multiplied by the taxable valuation of property in all school districts and the denominator of which is the total statewide ad valorem property tax levied in the prior taxable year.

4. The tax commissioner shall annually calculate the amount of credit to which a company is entitled under this section.

SECTION 10. A new section to chapter 57-38 of the North Dakota Century Code is created and enacted as follows:

Individual income tax credit.

1. A resident of this state is entitled to a nonrefundable credit against the resident's income tax liability as determined under section 57-38-30.3 for the taxable year.
2. Based on an individual's filing status used for federal income tax purposes, the maximum credit that may be claimed is:
   a. For single, married filing separately, and head of household filing status, eight hundred dollars.
   b. For married filing jointly and surviving spouse filing status, one thousand six hundred dollars.
3. The amount claimed may not exceed the amount of the resident's income tax liability as determined under this chapter for the taxable year. Any credit amount exceeding a resident's income tax liability for the taxable year may not be claimed as a carryback or carryforward.

SECTION 11. AMENDMENT. Section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30.3. Individual, estate, and trust income tax.

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals, estates, and trusts is equal to one and ninety-nine hundredths percent of North Dakota taxable income ~~multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's~~

~~filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision c must be used for purposes of this subsection~~.

~~a. Single, other than head of household or surviving spouse.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$37,450~~	~~1.10%~~	~~$0~~
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~

~~b. Married filing jointly and surviving spouse.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~

~~c. Married filing separately.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$31,300~~	~~1.10%~~	~~$0~~
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~

~~d. Head of household.~~

~~If North Dakota taxable income is:~~

~~Over~~	~~Not over~~	~~The tax is equal to~~	~~Of amount over~~
~~$0~~	~~$50,200~~	~~1.10%~~	~~$0~~
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~

~~$129,600 $209,850 $2,171.96 + 2.27% $129,600~~

~~$209,850 $411,500 $3,993.64 + 2.64% $209,850~~

~~$411,500 $9,317.20 + 2.90% $411,500~~

~~e. Estates and trusts.~~

~~If North Dakota taxable income is:~~

~~Over Not over The tax is equal to Of amount over~~

~~$0 $2,500 1.10% $0~~

~~$2,500 $5,900 $27.50 + 2.04% $2,500~~

~~$5,900 $9,050 $96.86 + 2.27% $5,900~~

~~$9,050 $12,300 $168.37 + 2.64% $9,050~~

~~$12,300 $254.17 + 2.90% $12,300~~

~~f.~~a. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

~~g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be~~

~~the same as that used for adjusting the income brackets for federal income tax purposes.~~

~~h.~~b. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

2. For purposes of this section, "North Dakota taxable income" means the federal taxable income of an individual, estate, or trust as computed under the Internal Revenue Code of 1986, as amended, adjusted as follows:

   a. Reduced by interest income from obligations of the United States and income exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

   b. Reduced by the portion of a distribution from a qualified investment fund described in section 57-38-01 which is attributable to investments by the qualified investment fund in obligations of the United States, obligations of North Dakota or its political subdivisions, and any other obligation the interest from which is exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

   c. Reduced by the amount equal to the earnings that are passed through to a taxpayer in connection with an allocation and apportionment to North Dakota under section 57-38-01.35.

   d. Reduced by forty percent of:

      (1) The excess of the taxpayer's net long-term capital gain for the taxable year over the net short-term capital loss for that year, as computed for purposes of the Internal Revenue Code of 1986, as amended. The adjustment provided by this subdivision is allowed only to the extent the net long-term capital gain is allocated to this state.

      (2) Qualified dividends as defined under Internal Revenue Code section 1(h)(11), added by section 302(a) of the Jobs and Growth Tax Relief Reconciliation Act of 2003 [Pub. L. 108-27; 117 Stat. 752; 2 U.S.C. 963 et seq.], but only if taxed at a federal income tax rate that is lower than the

regular federal income tax rates applicable to ordinary income. If, for any taxable year, qualified dividends are taxed at the regular federal income tax rates applicable to ordinary income, the reduction allowed under this subdivision is equal to thirty percent of all dividends included in federal taxable income. The adjustment provided by this subdivision is allowed only to the extent the qualified dividend income is allocated to this state.

e. Increased by the amount of a lump sum distribution for which income averaging was elected under section 402 of the Internal Revenue Code of 1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the taxpayer received the lump sum distribution while a nonresident of this state and the distribution is exempt from taxation by this state under federal law.

f. Increased by an amount equal to the losses that are passed through to a taxpayer in connection with an allocation and apportionment to North Dakota under section 57-38-01.35.

g. Reduced by the amount received by the taxpayer as payment for services performed when mobilized under title 10 United States Code federal service as a member of the national guard or reserve member of the armed forces of the United States. This subdivision does not apply to federal service while attending annual training, basic military training, or professional military education.

h. Reduced by income from a new and expanding business exempt from state income tax under section 40-57.1-04.

i. ~~Reduced by interest and income from bonds issued under chapter 11-37.~~

~~j.~~ Reduced by up to ten thousand dollars of qualified expenses that are related to a donation by a taxpayer or a taxpayer's dependent, while living, of one or more human organs to another human being for human organ transplantation. A taxpayer may claim the reduction in this subdivision only once for each instance of organ donation during the taxable year in which the human organ donation and the human organ transplantation occurs but if qualified expenses are incurred in more than one taxable year, the reduction for those expenses must be claimed in the year in which the expenses are incurred. For purposes of this subdivision:

(1) "Human organ transplantation" means the medical procedure by which transfer of a human organ is made from the body of one person to the body of another person.

(2) "Organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow.

(3) "Qualified expenses" means lost wages not compensated by sick pay and unreimbursed medical expenses as defined for federal income tax purposes, to the extent not deducted in computing federal taxable income, whether or not the taxpayer itemizes federal income tax deductions.

~~k.~~j. Increased by the amount of the contribution upon which the credit under section 57-38-01.21 is computed, but only to the extent that the contribution reduced federal taxable income.

~~l.~~k. Reduced by the amount of any payment received by a veteran or beneficiary of a veteran under section 37-28-03 or 37-28-04.

~~m.~~l. Reduced by the amount received by a taxpayer that was paid by an employer under paragraph 4 of subdivision a of subsection 2 of section 57-38-01.25 to hire the taxpayer for a hard-to-fill position under section 57-38-01.25, but only to the extent the amount received by the taxpayer is included in federal taxable income. The reduction applies only if the employer is entitled to the credit under section 57-38-01.25. The taxpayer must attach a statement from the employer in which the employer certifies that the employer is entitled to the credit under section 57-38-01.25 and which specifically identified the type of payment and the amount of the exemption under this section.

~~n.~~m. Reduced by the amount up to a maximum of five thousand dollars, or ten thousand dollars if a joint return is filed, for contributions made under a higher education savings plan administered by the Bank of North Dakota, pursuant to section 6-09-38.

~~o.~~n. Reduced by the amount of income of a taxpayer, who resides anywhere within the exterior boundaries of a reservation situated in this state or situated both in this state and in an adjoining state and who is an enrolled member of a federally recognized Indian tribe, from activities or sources anywhere within the exterior boundaries of a reservation situated in this state or both situated in this state and in an adjoining state.

~~p.~~o. For married individuals filing jointly, reduced by an amount equal to the excess of the recomputed itemized deductions or standard deduction over the amount of the itemized deductions or standard deduction deducted in computing federal taxable income. For purposes of this subdivision, "itemized deductions or standard deduction" means the amount under section 63 of the Internal Revenue Code that the married individuals deducted in computing their federal taxable income and "recomputed itemized deductions or standard deduction" means an amount determined by computing the itemized deductions or standard deduction in a manner that replaces the basic standard deduction under section 63(c)(2) of the Internal Revenue Code for married individuals filing jointly with an amount equal to double the amount of the basic standard deduction under section 63(c)(2) of the Internal Revenue Code for a single individual other than a head of household and surviving spouse. If the married individuals elected under section 63(e) of the Internal Revenue Code to deduct itemized deductions in computing their federal taxable income even though the amount of the allowable standard deduction is greater, the reduction under this subdivision is not allowed. Married individuals filing jointly shall compute the available reduction under this subdivision in a manner prescribed by the tax commissioner.

~~q.~~p. Reduced by an amount equal to four thousand one hundred fifty dollars for taxable year 2018, for each birth resulting in stillbirth, as defined in section 23-02.1-01, for which a fetal death certificate has been filed under section 23-02.1-20. For taxable years beginning after December 31, 2018, the deduction amount must be adjusted annually on January first of each year by the cost-of-living adjustment. For purposes of this subdivision, "cost-of-living adjustment" means the percentage increase in the consumer price index for all urban consumers in the midwest region as determined by the United States department of labor, bureau of labor statistics, for the most recent year ending December thirty-first. The exemption may only be claimed in the taxable year in which the stillbirth occurred.

~~r.~~q. Reduced by the amount of expenses incurred by an employee which are directly related to the attainment of higher education or career and technical education which are reimbursed by the employee's employer, but only to the extent the amount of reimbursement is reported as federal taxable income.

~~s.~~r. Reduced by the amount received by a taxpayer as retired military personnel benefits, including retired military personnel benefits paid to the surviving spouse of a deceased retired member of the armed forces of the United States, a reserve component of the armed forces of the United States, or the national guard, but only to the extent the amount was included in federal taxable income.

~~t.~~s. Reduced by the amount of social security benefits included in a taxpayer's federal adjusted gross income under section 86 of the Internal Revenue Code.

3. The same filing status used when filing federal income tax returns must be used when filing state income tax returns.

4. a. A resident individual, estate, or trust is entitled to a credit against the tax imposed under this section for the amount of income tax paid by the taxpayer for the taxable year by another state or territory of the United States or the District of Columbia on income derived from sources in those jurisdictions that is also subject to tax under this section.

b. For an individual, estate, or trust that is a resident of this state for the entire taxable year, the credit allowed under this subsection may not exceed an amount equal to the tax imposed under this section multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction divided by federal adjusted gross income less the amounts under subdivisions a and b of subsection 2.

c. For an individual, estate, or trust that is a resident of this state for only part of the taxable year, the credit allowed under this subsection may not exceed the lesser of the following:

(1) The tax imposed under this chapter multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction received while a resident of this state divided by federal adjusted gross

income derived from North Dakota sources less the amounts under subdivisions a and b of subsection 2.

(2) The tax paid to the other jurisdiction multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction received while a resident of this state divided by federal adjusted gross income derived from sources in the other states.

d. The tax commissioner may require written proof of the tax paid to another state. The required proof must be provided in a form and manner as determined by the tax commissioner.

5. Individuals, estates, or trusts that file an amended federal income tax return changing their federal taxable income figure for a year for which an election to file state income tax returns has been made under this section shall file an amended state income tax return to reflect the changes on the federal income tax return.

6. The tax commissioner may prescribe procedures and guidelines to prevent requiring income that had been previously taxed under this chapter from becoming taxed again because of the provisions of this section and may prescribe procedures and guidelines to prevent any income from becoming exempt from taxation because of the provisions of this section if it would otherwise have been subject to taxation under the provisions of this chapter.

7. A taxpayer filing a return under this section is entitled to the following tax credits:

a. Family care tax credit under section 57-38-01.20.

b. Renaissance zone tax credits under sections 40-63-04, 40-63-06, and 40-63-07.

c. Agricultural business investment tax credit under section 57-38.6-03.

d. Seed capital investment tax credit under section 57-38.5-03.

e. Planned gift tax credit under section 57-38-01.21.

f. Biodiesel fuel or green diesel fuel tax credits under sections 57-38-01.22 and 57-38-01.23.

g. Internship employment tax credit under section 57-38-01.24.

h. Workforce recruitment credit under section 57-38-01.25.

i. ~~Marriage penalty credit under section 57-38-01.28.~~

~~j.~~ Research and experimental expenditures under section 57-38-30.5.

~~k.~~j. Geothermal energy device installation credit under section 57-38-01.8.

~~l.~~k. Long-term care partnership plan premiums income tax credit under section 57-38-29.3.

~~m.~~l. Employer tax credit for salary and related retirement plan contributions of mobilized employees under section 57-38-01.31.

~~n.~~m. Income tax credit for passthrough entity contributions to private education institutions under section 57-38-01.7.

~~o.~~n. Angel investor tax credit under section 57-38-01.26.

~~p.~~o. Twenty-first century manufacturing workforce incentive under section 57-38-01.36 (effective for the first four taxable years beginning after December 31, 2018).

~~q.~~p. Income tax credit for employment of individuals with developmental disabilities or severe mental illness under section 57-38-01.16.

~~r. Individual income tax credit under section 57-38-01.37 (effective for the first two taxable years beginning after December 31, 2020).~~

q. Individual income tax credit under section 10 of this Act.

8. A taxpayer filing a return under this section is entitled to ~~the~~any exemption ~~provided~~for which the taxpayer qualifies under section 40-63-04.

9. a. If an individual taxpayer engaged in a farming business elects to average farm income under section 1301 of the Internal Revenue Code [26 U.S.C. 1301], the taxpayer may elect to compute tax under this subsection. If an election to compute tax under this subsection is made, the tax imposed by subsection 1 for the taxable year must be equal to the sum of the following:

(1) The tax computed under subsection 1 on North Dakota taxable income reduced by elected farm income.

(2) The increase in tax imposed by subsection 1 which would result if North Dakota taxable income for each of the three prior taxable years were increased by an amount equal to one-third of the elected farm income. However, if other provisions of this chapter other than this section were used to compute the tax for any of the three prior years, the same provisions in effect for that prior tax year must be used to compute the

increase in tax under this paragraph. For purposes of applying this paragraph to taxable years beginning before January 1, 2001, the increase in tax must be determined by recomputing the tax in the manner prescribed by the tax commissioner.

b. For purposes of this subsection, "elected farm income" means that portion of North Dakota taxable income for the taxable year which is elected farm income as defined in section 1301 of the Internal Revenue Code of 1986 [26 U.S.C. 1301], as amended, reduced by the portion of an exclusion claimed under subdivision d of subsection 2 that is attributable to a net long-term capital gain included in elected farm income.

c. The reduction in North Dakota taxable income under this subsection must be taken into account for purposes of making an election under this subsection for any subsequent taxable year.

d. The tax commissioner may prescribe rules, procedures, or guidelines necessary to administer this subsection.

10. ~~The tax commissioner may prescribe tax tables, to be used in computing the tax according to subsection 1, if the amounts of the tax tables are based on the tax rates set forth in subsection 1. If prescribed by the tax commissioner, the tables must be followed by every individual, estate, or trust determining a tax under this section~~If the actual general fund revenues exceed the estimated general fund revenues for the twelve-month period ending June thirtieth of an even-numbered year by at least ten percent as determined by the director of the office of management and budget, the rates under subsection 1 must be reduced by one-half percent for the subsequent tax year beginning after December thirty-first of an even-numbered year. The tax commissioner shall publish the reduced rates and notify taxpayers of the reduced rates by November first of an even-numbered year. The tax commissioner may determine the form and manner of publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. For purposes of this subsection:

a. "Estimated general fund revenues" means the estimated general fund revenues, excluding the July first of an odd-numbered year general fund balance, as reflected in the cash flow forecast developed by the director of the office of management and budget based on the total estimated general fund revenues for the biennium approved by the most recently adjourned special or regular session of the legislative assembly.

b. Any reductions to the rates under subsection 1 apply to tax years beginning after December 31, 2022.

c. The rate reductions must be equally applied to all tax brackets.

d. The reduced rates must be rounded to the nearest one-hundredth of a percent.

e. This subsection does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.

SECTION 12. AMENDMENT. Section 57-38-75 of the North Dakota Century Code is amended and reenacted as follows:

57-38-75. Rounding.

With respect to any amount required to be shown on any return, form, statement, or other document required to be filed with the tax commissioner and for purposes of amounts in tax tables prescribed under ~~subsection 12 of section 57-38-30.3 and~~ subsection 3 of section 57-38-59, the amount may be rounded to the nearest dollar. The cents must be disregarded if the cents amount to less than one-half dollar. If the cents amount to one-half dollar or more, the amount must be increased to the next whole dollar.

SECTION 13. REPEAL. Sections 15.1-27-04.3, 15.1-27-15.1, and 15.1-27-20.2 of the North Dakota Century Code are repealed.

SECTION 14. REPEAL. Section 57-38-01.28 of the North Dakota Century Code is repealed.

SECTION 15. APPROPRIATION - HOMESTEAD TAX CREDIT PROGRAM. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $37,000,000, 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.

SECTION 16. EFFECTIVE DATE. Sections 3, 5, 6, 7, 9, 10, 11, 12, and 14 of this Act are effective for taxable years beginning after December 31, 2022.

	Proposal 2			
	$350 Million			
Income Tax - Same Principle as HB 1515				
	$700 Single/$1,400 Married			
1.10%	$44,725	$491.98	1.10%	
2.04%	$108,325	$1,789.42	1.65%	
2.27%	$225,975	$4,460.07	1.97%	
2.64%	$491,350	$11,465.97	2.33%	
2.90%				
	$162 Million			
Property Tax Relief				
	15 Mills + Centrally Assess + Rural Electric			
	$50 Million			
Homestead Tax Credit				
	$562 Million			

	Proposal 3			
	$358 Million			
	3 Tier System			
0.00%	$44,725	$0.00	0.00%	
1.95%	$225,975	$3,534.38	1.56%	
2.50%	$491,350	$10,168.75	2.07%	
	$162 Million			
	15 Mills + Centrally Assess + Rural Electric			
	$50 Million			
	$570 Million			

	Senate Proposal 1			
	$288 Million			
	0% First Level - Others Unchanged			
0.00%	$44,725	$0.00	0.00%	
2.04%	$108,325	$1,297.44	1.20%	
2.27%	$225,975	$3,968.10	1.76%	
2.64%	$491,350	$10,974.00	2.23%	
2.90%				
	$217 Million			
	20 Mills + Centrally Assess + Rural Electric			
	$80 Million			
	Age 65			
	$0	$50,000	100%	$9,000
	$50,000	$75,000	50%	$4,500
	$585 Million			

	House Proposal 1			
	$383 Million			
	1.99% Flat Tax $800/$1600			
1.99%	$44,725	$890.03	1.99%	
1.99%	$108,325	$2,155.67	1.99%	
1.99%	$225,975	$4,496.90	1.99%	
1.99%	$491,350	$9,777.87	1.99%	
1.99%				
	$108 Million			
Property Tax Relief				
	10 Mills + Centrally Assess + Rural Electric			
	$37 Million			
Homestead Tax Credit				
	$528 Million			

HB 1158 Conference Committee
4/14/2023

Estimated Biennium Impact Per Plan	
0% and 1.99% with $5000 Adjustment	$394,567,166
15 Mill Buy Down	$162,436,045
Homestead Property Credit	$40,000,000
Total	**$597,003,211**

Individual Income Tax Bracket Overview			
Bracket Level	**Original Tax Rate**	**Updated Tax Rate**	**Return Count**
1	1.10%	0.00%	558,394
2	2.04%	1.99%	248,824
3	2.27%	1.99%	52,901
4	2.64%	1.99%	27,090
5	2.90%	1.99%	28,907
TOTAL			916,116

Individual Income Tax Comparison 0% First and 1.99% Remaining with $5000 Adjustment Fiscal Note View (without HB 1515 Credits)				
Bracket Level	**Original Net Tax Liability**	**Updated Net Tax Liability**	**Taxpayer Savings**	**Average Savings Per Return**
1	$104,234,938	$0	$104,234,938	$187
2	$267,016,822	$146,223,917	$120,792,905	$485
3	$120,131,628	$92,719,118	$27,412,510	$518
4	$106,078,279	$82,649,241	$23,429,038	$865
5	$361,641,189	$242,943,414	$118,697,775	$4,106
TOTAL	$959,102,856	$564,535,690	**$394,567,166**	$431

Individual Income Tax Comparison 0% First and 1.99% Remaining with $5000 Adjustment 2021 Comparison (with HB 1515 Credits)				
Bracket Level	**Original Net Tax Liability**	**Updated Net Tax Liability**	**Taxpayer Savings**	**Average Savings Per Return**
1	$13,197,972	$0	$13,197,972	$24
2	$163,384,717	$146,223,917	$17,160,800	$69
3	$101,539,754	$92,719,118	$8,820,636	$167
4	$97,721,454	$82,649,241	$15,072,213	$556
5	$356,548,366	$242,943,414	$113,604,952	$3,930
TOTAL	$732,392,263	$564,535,690	$167,856,573	$183

Income Tax Options		
Rate Change Plan	**Annual Total**	**Biennium Total**
0% First Level and 1.5% Remaining	$283,203,000	$566,406,000
0% First Level and 1.6% Remaining	$268,633,322	$537,266,643
0% First Level and 1.7% Remaining	$254,029,838	$508,059,675
0% First Level and 1.8% Remaining	$239,389,582	$478,779,163
0% First Level and 1.9% Remaining	$224,535,862	$449,071,724
0% First Level and 1.99% Remaining	$211,127,532	$422,255,064
0% First Level and 2.00% Remaining	$209,636,006	$419,272,012
0% First Level and 2.15% Remaining	$187,231,799	$374,463,598
0% First Level and 2.25% Remaining	$172,256,096	$344,512,191
0% First Level and 1.5% Remaining -5K	$272,830,889	$545,661,775
0% First Level and 1.6% Remaining -5K	$257,558,743	$515,117,485
0% First Level and 1.7% Remaining -5K	$242,251,993	$484,503,985
0% First Level and 1.8% Remaining -5K	$226,902,038	$453,804,075
0% First Level and 1.9% Remaining -5K	$211,333,001	$422,666,002
0% First Level and 1.99% Remaining -5K	$197,283,583	$394,567,166
0% First Level and 2.00% Remaining	$195,721,672	$391,443,344
0% First Level and 1.5% Remaining -10K	$261,387,925	$522,775,849
0% First Level and 1.6% Remaining -10K	$245,339,638	$490,679,275
0% First Level and 1.7% Remaining -10K	$229,252,824	$458,505,647
0% First Level and 1.8% Remaining -10K	$213,119,161	$426,238,321
0% First Level and 1.9% Remaining -10K	$196,768,853	$393,537,706
0% First Level and 1.99% Remaining -10K	$182,019,518	$364,039,036
0% First Level and 2.00% Remaining -10K	$180,379,198	$360,758,396
$500 and $1,000 Credits Only	$144,166,270	$288,332,540
$700 and $1,400 Credits Only	$175,056,493	$350,112,985
$750 and $1,500 Credits Only	$181,400,000	$362,800,000
30% Rate Reduction (No Credits)	$152,913,854	$305,827,708
1.99% Flat Tax + $500 and $1,000 Credits	$121,532,696	$243,065,391
1.99% Flat Tax + $700 and $1,400 Credits	$170,961,175	$341,922,349
1.99% Flat Tax + $800 and $1,600 Credits	$191,589,179	$383,178,358
2.04% Flat Tax + Bracket Level 1 Credits	$182,275,266	$364,550,531
2.25% Flat Tax + $1,000 and $2,000 Credits	$167,537,801	$335,075,602
0% First Level - Other Levels Unchanged	$143,997,224	$287,994,448
3 Tier System: 0%, 1.75%, and 2.5%	$195,228,304	$390,456,607
3 Tier System: 0%, 1.85%, and 2.5%	$187,200,852	$374,401,703
3 Tier System: 0%, 1.95%, and 2.5%	$179,148,602	$358,297,204
3 Tier System: 0.5%, 1.0%, and 1.5%	$258,096,840	$516,193,680
3 Tier System: 0.5%, 1.25%, and 2.0%	$204,688,247	$409,376,494
3 Tier System: 0.5%, 1.5%, and 2.5%	$150,197,391	$300,394,782
None	$0	$0

Mill Buy Down Options		
Number of Mills	**Annual Total**	**Biennium Total**
20 Mills Base	$102,000,000	$204,000,000
20 Mills + Central	$108,009,638	$216,019,277
20 Mills + Central + Rural Electric Credit	$108,290,696	$216,581,393
17 Mills Base	$87,500,000	$175,000,000
17 Mills + Central	$92,608,193	$185,216,385
17 Mills + Central + Rural Electric Credit	$92,847,092	$185,694,184
15 Mills Base	$76,500,000	$153,000,000
15 Mills + Central	$81,007,229	$162,014,458
15 Mills + Central + Rural Electric Credit	$81,218,023	$162,436,045
10 Mills Base	$51,000,000	$102,000,000
10 Mills + Central	$54,004,819	$108,009,638
10 Mills + Central + Rural Electric Credit	$54,145,349	$108,290,697
None	$0	$0

Homestead Tax Credit Options		
Description	**Annual Total**	**Biennium Total**
$20 Million	$10,000,000	$20,000,000
$25 Million	$12,500,000	$25,000,000
$30 Million	$15,000,000	$30,000,000
$35 Million	$17,500,000	$35,000,000
$40 Million	$20,000,000	$40,000,000
$45 Million	$22,500,000	$45,000,000
$50 Million	$25,000,000	$50,000,000
$55 Million	$27,500,000	$55,000,000
$60 Million	$30,000,000	$60,000,000
$65 Million	$32,500,000	$65,000,000
$70 Million	$35,000,000	$70,000,000
$75 Million	$37,500,000	$75,000,000
$80 Million	$40,000,000	$80,000,000
$85 Million	$42,500,000	$85,000,000
$90 Million	$45,000,000	$90,000,000
Amended HB 1158 - Ages 65+ Income Less Than $75K	$32,450,000	$64,900,000
Amended SB 2136 - Ages 65+ Income Less Than $100K	$63,650,000	$127,300,000
No Age Limit + Income Less Than $120K	$208,500,000	$417,000,000
No Age Limit + Income Less Than $96K	$97,900,000	$195,800,000
None	$0	$0

Proposal 2

$350 Million

Income Tax - Same Principle as HB 1515

$700 Single/$1,400 Married

1.10%	$44,725	$491.98	1.10%
2.04%	$108,325	$1,789.42	1.65%
2.27%	$225,975	$4,460.07	1.97%
2.64%	$491,350	$11,465.97	2.33%
2.90%			

$172 Million

Property Tax Relief

15 Mills + Centrally Assess + Rural Electric

$50 Million

Homestead Tax Credit

$572 Million

Proposal 3

$358 Million

3 Tier System

0.00%	$44,725	$0.00	0.00%
1.95%	$225,975	$3,534.38	1.56%
2.50%	$491,350	$10,168.75	2.07%

$172 Million

15 Mills + Centrally Assess + Rural Electric

$50 Million

$580 Million

Senate Proposal 1

$288 Million

0% First Level - Others Unchanged

0.00%	$44,725	$0.00	0.00%
2.04%	$108,325	$1,297.44	1.20%
2.27%	$225,975	$3,968.10	1.76%
2.64%	$491,350	$10,974.00	2.23%
2.90%			

$217 Million

20 Mills + Centrally Assess + Rural Electric

$80 Million

Age 65

$0	$50,000	100%	$9,000
$50,000	$75,000	50%	$4,500

$585 Million

House Proposal 1

$383 Million

1.99% Flat Tax $800/$1600

1.99%	$44,725	$890.03	1.99%
1.99%	$108,325	$2,155.67	1.99%
1.99%	$225,975	$4,496.90	1.99%
1.99%	$491,350	$9,777.87	1.99%
1.99%			

$108 Million

Property Tax Relief

10 Mills + Centrally Assess + Rural Electric

$37 Million

Homestead Tax Credit

$528 Million

Proposal 4

$350 Million

Income Tax - Same Principle as HB 1515

$700 Single/$1,400 Married

1.10%	$44,725	$491.98	1.10%
2.04%	$108,325	$1,789.42	1.65%
2.27%	$225,975	$4,460.07	1.97%
2.64%	$491,350	$11,465.97	2.33%
2.90%			

$172 Million

Property Tax Relief

15 Mills + Centrally Assess + Rural Electric

$37 Million

Homestead Tax Credit

$559 Million

Proposal 5

$327 Million

4 Tier System

0.00%	$44,725	$0.00	0.00%
1.95%	$225,975	$3,534.38	1.56%
2.50%	$1,000,000	$22,885.00	2.29%
2.90%			

$172 Million

15 Mills + Centrally Assess + Rural Electric

$40 Million

$539 Million

Proposal 6.

$288 Million

0% First Level - Others Unchanged

0.00%	$44,725	$0.00	0.00%
2.04%	$108,325	$1,297.44	1.20%
2.27%	$225,975	$3,968.10	1.76%
2.64%	$491,350	$10,974.00	2.23%
2.90%			

$125 Million

12 Mills + Centrally Assess + Rural Electric

$37 Million

Age 65

$450 Million

Proposal 7

$332 Million

4 Tier System

0.00%	$44,725	$0.00	0.00%
1.95%	$225,975	$3,534.38	1.56%
2.50%	$750,000	$16,635.00	2.22%
2.80%			

$172 Million

15 Mills + Centrally Assess + Rural Electric

$37 Million

$541 Million

57-02-08.___. Primary residence credit.

1. a. A resident of this state is entitled to a credit of five hundred dollars against the property tax due on the individual's primary residence. The credit cannot exceed the amount of property tax due. The credit must be applied to reduce the tax owed on the individual's primary residence after other exemptions or credits under this chapter have been applied.

   b. For purposes of this section, "primary residence" means a dwelling in this state owned and occupied by an individual as that individual's primary place of residence and includes residences taxed under chapter 57-55. An individual may not have more than one primary residence.

   c. The application requirement continues to apply if the individual does not reside in the primary residence in this state and the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.

   d. Only one credit under this subsection may be applied against the property taxes levied against any primary residence.

   e. An individual whose primary residence is a farm structure exempt from taxation under subsection 15 of section 57-02-08 may not receive any property tax credit under this section.

   f. The credit may not reduce the liability for special assessments levied upon the property.

   g. To be eligible for the credit, an individual must file an application with the county auditor, on or before the first of April, providing any information required to determine eligibility for the credit on a form and manner prescribed by the tax commissioner.

2. a. On or before the first of January of each year, the county auditor shall certify to the tax commissioner, the sum of the primary residence credits allowed in the county for the preceding year.

   b. On or before the first of June of each year, the tax commissioner shall review a sample of the applications from each county and certify to the state treasurer for payment to each county, the sum of the primary residence credits allowed in the county for the preceding year.

   c. Within fourteen days of receiving the payment under subsection 2, the county treasurer shall apportion and distribute it to the county and to the local taxing districts of the county on the basis on which the general real estate tax for the preceding year is apportioned and distributed.

d. Supplemental certifications by the county auditor and by the state tax commissioner and supplemental payments by the state treasurer may be made after the dates prescribed in this section to make such corrections as may be necessary because of errors or because of approval of any application for abatement.

3. All forms necessary to effectuate this section must be prescribed, designed, and made available by the tax commissioner. The county auditors shall make these forms available upon request.

Effective Date:

Section __ of this act is effective for the first two taxable years beginning after December 31, 2023, and after that date is ineffective.

23.0351.02013
Title.

Prepared by the Legislative Council staff for
Conference Committee
April 24, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1158

That the Senate recede from its amendments as printed on pages 1468-1485 of the House Journal and pages 1076-1095 of the Senate Journal and that House Bill No. 1158 be amended as follows:

Page 1, line 1, after "Act" insert "to create and enact two new sections to chapter 57-02 of the North Dakota Century Code, relating to a property tax credit for property used as a primary residence;"

Page 1, line 1, after "reenact" insert "subsection 1 of section 57-02-08.1 and"

Page 1, line 2, replace "imposition of a flat" with "homestead tax credit and"

Page 1, line 2, replace "rate of one and one-half percent" with "rates"

Page 1, line 3, replace the second "and" with "to provide for a legislative management study; to provide for a legislative management report; to provide an appropriation;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 4, insert:

"**SECTION 1. AMENDMENT.** Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~<u>forty</u> thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~<u>nine</u> thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

      (2) If the person's income is in excess of ~~twenty-two~~<u>forty</u> thousand dollars and not in excess of ~~twenty-six~~<u>seventy</u> thousand dollars, a reduction of ~~eighty~~<u>fifty</u> percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

(3) ~~If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

(4) ~~If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

(5) ~~If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

(6) ~~If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 2. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Qualification - Application.

1. An individual is entitled to a credit of five hundred dollars against the property tax due on the individual's primary residence. The credit may not exceed the amount of property tax due. The credit must be applied to reduce the property tax owed on the individual's primary residence after other exemptions or credits under this chapter have been applied.

2. For purposes of this section, "primary residence" means a dwelling in this state owned and occupied by an individual as that individual's primary place of residence and includes residences taxed under chapter 57-55. An individual may not have more than one primary residence.

3. An individual who does not reside in the primary residence in this state is eligible for the credit under this section if the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.

4. Only one credit under this section may be applied against the property taxes levied against any primary residence.

5. An individual whose primary residence is a farm structure exempt from taxation under subsection 15 of section 57-02-08 is not eligible for a credit under this section.

6. The credit may not reduce the liability for special assessments levied upon any property.

7. To claim a credit under this section, a claimant must sign and file with the county auditor, by April first of each year, an application containing a verified statement of facts establishing the claimant's eligibility as of the date of the claim on a form and in the manner prescribed by the tax commissioner.

8. The tax commissioner shall prescribe, design, and make available all forms necessary to effectuate this section. The county auditors shall make these forms available upon request.

SECTION 3. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Certification - Distribution.

1. By January first of each year, the county auditor shall certify to the tax commissioner the sum of the credits allowed under section 2 of this Act in the county for the preceding year and provide any other information required by the tax commissioner.

2. By June first of each year, the tax commissioner shall review a sample of the applications from each county and certify to the state treasurer for payment to each county the aggregate dollar amount of credits allowed under section 2 of this Act in each county for the preceding year.

3. By June fifteenth of each year, the state treasurer shall distribute moneys to counties in the amounts certified by the tax commissioner under subsection 2.

4. Within fourteen days of receiving the payment from the state treasurer under subsection 3, but no later than June thirtieth of each year, the county treasurer shall apportion and distribute the payment to the county and to the taxing districts of the county on the same basis as property taxes for the preceding year were apportioned and distributed.

5. Supplemental certifications by the county auditor and the tax commissioner and supplemental payments by the state treasurer may be made after the dates prescribed in this section to make corrections necessary because of errors or approval of any application for abatement filed by an individual because the credit under section 2 of this Act was not allowed.

6. The tax commissioner shall prescribe, design, and make available all forms necessary to effectuate this section."

Page 1, line 16, remove the overstrike over "~~rates in the applicable~~"

Page 1, line 16, remove the overstrike over "~~schedule~~"

Page 1, line 17, remove the overstrike over "~~For~~"

Page 1, line 17, remove "The tax for"

Page 1, line 18, remove the overstrike over "~~, the schedule~~"

Page 1, line 18, remove "is equal to North Dakota taxable income multiplied by the"

Page 1, line 19, remove "rate"

Page 1, line 19, remove the overstrike over "~~must be used for purposes of this subsection~~"

Page 1, line 19, remove "The tax to be"

Page 1, remove line 20

Page 1, line 21, remove the overstrike over "~~surviving spouse~~"

Page 1, line 21, remove "qualifying widow or"

Page 1, remove line 22

Page 1, line 23, remove "forty-four thousand seven hundred twenty-five dollars"

Page 1, remove the overstrike over line 24

Page 2, remove the overstrike over line 1

Page 2, after line 6, insert:

"$0	$44,725	$0.00 + 0.00%	$0
$44,725	$225,975	$0.00 + 1.95%	$44,725
$225,975		$3,534.38 + 2.50%	$225,975"

Page 2, line 7, remove the overstrike over "~~surviving spouse~~"

Page 2, line 7, remove "qualifying widow or widower is one and"

Page 2, remove line 8

Page 2, line 9, remove "thousand seven hundred fifty dollars"

Page 2, remove the overstrike over lines 10 and 11

Page 2, after line 16, insert:

"$0	$74,750	$0.00 + 0.00%	$0
$74,750	$275,100	$0.00 + 1.95%	$74,750
$275,100		$3,906.83 + 2.50%	$275,100"

Page 2, line 17, remove "is one and one-half percent of North Dakota taxable"

Page 2, line 18, remove "income exceeding thirty-seven thousand three hundred seventy-five dollars"

Page 2, remove the overstrike over lines 19 and 20

Page 2, after line 25, insert:

"$0	$37,375	$0.00 + 0.00%	$0
$37,375	$137,550	$0.00 + 1.95%	$37,375
$137,550		$1,953.41 + 2.50%	$137,550"

Page 2, line 26, remove "is one and one-half percent of North Dakota taxable income"

Page 2, line 27, remove "exceeding fifty-nine thousand nine hundred fifty dollars"

Page 2, remove the overstrike over lines 28 and 29

Page 3, after line 3, insert:

"$0	$59,950	$0.00 + 0.00%	$0
$59,950	$250,550	$0.00 + 1.95%	$59,950
$250,550		$3,716.70 + 2.50%	$250,550"

Page 3, line 4, remove "is one and one-half percent of North Dakota taxable income"

Page 3, line 5, remove "exceeding three thousand dollars"

Page 3, remove the overstrike over lines 6 and 7

Page 3, after line 12, insert:

"$0	$3,000	$0.00 + 0.00%	$0
$3,000	$10,750	$0.00 + 1.95%	$3,000
$10,750		$151.13 + 2.50%	$10,750"

Page 3, line 25, remove the overstrike over "~~rate schedules~~"

Page 3, line 25, remove "rates"

Page 3, line 26, remove the overstrike over "~~schedules~~"

Page 3, line 26, remove "rates"

Page 3, line 27, remove the overstrike over "~~schedules~~"

Page 3, line 27, remove "rates"

Page 3, line 27, remove the overstrike over "~~minimum and~~"

Page 3, line 28, remove the overstrike over "~~maximum~~"

Page 3, line 28, remove "North Dakota taxable income threshold"

Page 3, line 28, remove the overstrike over "~~for each income~~"

Page 3, line 29, remove the overstrike over "~~bracket for which a tax is imposed~~"

Page 4, line 1, remove the overstrike over "~~to each income bracket~~"

Page 4, after line 8, insert:

"SECTION 5. LEGISLATIVE TAX RELIEF ADVISORY COMMITTEE - TAX RELIEF STUDY - REPORT TO LEGISLATIVE MANAGEMENT.

1. During the 2023-24 interim, the legislative management shall consider appointing a legislative tax relief advisory committee.

2. If appointed, the committee must consist of three members of the finance and taxation standing committee of the house of representatives and three members of the finance and taxation standing committee of the senate, appointed by the respective majority leaders of the house of representatives and senate. The legislative management shall designate the chairman of the committee. The committee shall operate according to the statutes and procedures governing the operation of other legislative management interim committees.

3. If appointed, the committee shall study tax relief, including income and property tax relief.

    a. Based on information provided by the tax department, the study must include consideration of:

        (1) Historical income and property tax relief provided by the legislative assembly, including the estimated and actual fiscal impact of the tax relief;

        (2) An analysis of the tax relief provided by the sixty-eighth legislative assembly through individual income tax rate changes, a primary residence credit, and an expansion of the homestead credit, including the estimated fiscal impact for each method of tax relief and the effect of the income tax rate changes on passthrough income related to income reported on K 1 forms and royalty income reported on 1099 MISC forms;

        (3) Options to implement a flat individual income tax rate, including the estimated fiscal impact of the options; and

(4) Options to adjust the individual income tax structure to eliminate the individual income tax in a future biennium, including the estimated fiscal impact of the options.

b. The committee may consider input from local taxing districts regarding the administration of the primary residence credit and the homestead credit.

c. The committee shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-ninth legislative assembly.

SECTION 6. APPROPRIATION - TAX DEPARTMENT - PROPERTY TAX RELIEF - ONE-TIME FUNDING. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $158,225,000, or so much of the sum as may be necessary, to the tax commissioner for property tax relief programs during the biennium beginning July 1, 2023, and ending June 30, 2025, as follows:

1. $103,225,000 for paying the state reimbursement under the primary residence credit;

2. $53,500,000 for paying the state reimbursement under the homestead credit; and

3. $1,500,000, which is considered a one-time funding item, for operating expenses related to information technology and advertising costs for the primary residence credit.

SECTION 7. EFFECTIVE DATE - EXPIRATION DATE. Section 2 of this Act is effective for the first two taxable years beginning after December 31, 2023, and after that date is ineffective."

Page 4, line 9, replace "This" with "Sections 1 and 4 of this"

Page 4, line 9, replace "is" with "are"

Page 4, line 10, after the period insert "Section 3 of this Act becomes effective on July 1, 2024.

SECTION 9. EXPIRATION DATE. Section 3 of this Act is effective through June 30, 2026, and after that date is ineffective."

Renumber accordingly

23.0351.02013

Sixty-eighth
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1158

Introduced by

Representatives Headland, Bosch, Dockter, Grueneich, Hagert, Heinert

Senators Axtman, Conley, Kannianen, Meyer, K. Roers, Wanzek

A BILL for an Act to create and enact two new sections to chapter 57-02 of the North Dakota Century Code, relating to a property tax credit for property used as a primary residence; to amend and reenact subsection 1 of section 57-02-08.1 and subsection 1 of section 57-38-30.3 of the North Dakota Century Code, relating to the ~~imposition of a flat~~homestead tax credit and income tax ~~rate of one and one-half percent~~rates for individuals, estates, and trusts; ~~and~~to provide for a legislative management study; to provide for a legislative management report; to provide an appropriation; to provide an effective date; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 1 of section 57-02-08.1 of the North Dakota Century Code is amended and reenacted as follows:

1. a. Any person sixty-five years of age or older or permanently and totally disabled, in the year in which the tax was levied, with an income that does not exceed the limitations of subdivision c is entitled to receive a reduction in the assessment on the taxable valuation on the person's homestead. An exemption under this subsection applies regardless of whether the person is the head of a family.

   b. The exemption under this subsection continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the homestead previously occupied by the person is not rented to another person.

   c. The exemption must be determined according to the following schedule:

      (1) If the person's income is not in excess of ~~twenty-two~~forty thousand dollars, a reduction of one hundred percent of the taxable valuation of the person's homestead up to a maximum reduction of ~~five~~nine thousand ~~six hundred twenty-five~~ dollars of taxable valuation.

(2) If the person's income is in excess of ~~twenty-two~~forty thousand dollars and not in excess of ~~twenty-six~~seventy thousand dollars, a reduction of ~~eighty~~fifty percent of the taxable valuation of the person's homestead up to a maximum reduction of four thousand five hundred dollars of taxable valuation.

~~(3) If the person's income is in excess of twenty-six thousand dollars and not in excess of thirty thousand dollars, a reduction of sixty percent of the taxable valuation of the person's homestead up to a maximum reduction of three thousand three hundred seventy-five dollars of taxable valuation.~~

~~(4) If the person's income is in excess of thirty thousand dollars and not in excess of thirty-four thousand dollars, a reduction of forty percent of the taxable valuation of the person's homestead up to a maximum reduction of two thousand two hundred fifty dollars of taxable valuation.~~

~~(5) If the person's income is in excess of thirty-four thousand dollars and not in excess of thirty-eight thousand dollars, a reduction of twenty percent of the taxable valuation of the person's homestead up to a maximum reduction of one thousand one hundred twenty-five dollars of taxable valuation.~~

~~(6) If the person's income is in excess of thirty-eight thousand dollars and not in excess of forty-two thousand dollars, a reduction of ten percent of the taxable valuation of the person's homestead up to a maximum reduction of five hundred sixty-three dollars of taxable valuation.~~

d. Persons residing together, as spouses or when one or more is a dependent of another, are entitled to only one exemption between or among them under this subsection. Persons residing together, who are not spouses or dependents, who are co-owners of the property are each entitled to a percentage of a full exemption under this subsection equal to their ownership interests in the property.

e. This subsection does not reduce the liability of any person for special assessments levied upon any property.

f. Any person claiming the exemption under this subsection shall sign a verified statement of facts establishing the person's eligibility. Any income information contained in the statement of facts is a confidential record.

g. ~~A person is ineligible for the exemption under this subsection if the value of the assets of the person and any dependent residing with the person exceeds five hundred thousand dollars, including the value of any assets divested within the last three years.~~

~~h.~~ The assessor shall attach the statement filed under subdivision f to the assessment sheet and shall show the reduction on the assessment sheet.

~~i.~~h. An exemption under this subsection terminates at the end of the taxable year of the death of the applicant.

SECTION 2. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Qualification - Application.

1. An individual is entitled to a credit of five hundred dollars against the property tax due on the individual's primary residence. The credit may not exceed the amount of property tax due. The credit must be applied to reduce the property tax owed on the individual's primary residence after other exemptions or credits under this chapter have been applied.
2. For purposes of this section, "primary residence" means a dwelling in this state owned and occupied by an individual as that individual's primary place of residence and includes residences taxed under chapter 57-55. An individual may not have more than one primary residence.
3. An individual who does not reside in the primary residence in this state is eligible for the credit under this section if the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.
4. Only one credit under this section may be applied against the property taxes levied against any primary residence.
5. An individual whose primary residence is a farm structure exempt from taxation under subsection 15 of section 57-02-08 is not eligible for a credit under this section.

6. The credit may not reduce the liability for special assessments levied upon any property.

7. To claim a credit under this section, a claimant must sign and file with the county auditor, by April first of each year, an application containing a verified statement of facts establishing the claimant's eligibility as of the date of the claim on a form and in the manner prescribed by the tax commissioner.

8. The tax commissioner shall prescribe, design, and make available all forms necessary to effectuate this section. The county auditors shall make these forms available upon request.

SECTION 3. A new section to chapter 57-02 of the North Dakota Century Code is created and enacted as follows:

Primary residence credit - Certification - Distribution.

1. By January first of each year, the county auditor shall certify to the tax commissioner the sum of the credits allowed under section 2 of this Act in the county for the preceding year and provide any other information required by the tax commissioner.

2. By June first of each year, the tax commissioner shall review a sample of the applications from each county and certify to the state treasurer for payment to each county the aggregate dollar amount of credits allowed under section 2 of this Act in each county for the preceding year.

3. By June fifteenth of each year, the state treasurer shall distribute moneys to counties in the amounts certified by the tax commissioner under subsection 2.

4. Within fourteen days of receiving the payment from the state treasurer under subsection 3, but no later than June thirtieth of each year, the county treasurer shall apportion and distribute the payment to the county and to the taxing districts of the county on the same basis as property taxes for the preceding year were apportioned and distributed.

5. Supplemental certifications by the county auditor and the tax commissioner and supplemental payments by the state treasurer may be made after the dates prescribed in this section to make corrections necessary because of errors or approval of any application for abatement filed by an individual because the credit under section 2 of this Act was not allowed.

6. The tax commissioner shall prescribe, design, and make available all forms necessary to effectuate this section.

SECTION 4. AMENDMENT. Subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For~~The tax for~~ an estate or trust, the schedule ~~is equal to North Dakota taxable income multiplied by the rate~~ in subdivision e must be used for purposes of this subsection. ~~The tax to be computed for:~~

    a. Single, other than head of household or surviving spouse~~qualifying widow or widower is one and one-half percent of North Dakota taxable income exceeding forty-four thousand seven hundred twenty-five dollars~~.

    If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$37,450~~	~~1.10%~~ ~~$0~~	
~~$37,450~~	~~$90,750~~	~~$411.95 + 2.04%~~	~~$37,450~~
~~$90,750~~	~~$189,300~~	~~$1,499.27 + 2.27%~~	~~$90,750~~
~~$189,300~~	~~$411,500~~	~~$3,736.36 + 2.64%~~	~~$189,300~~
~~$411,500~~		~~$9,602.44 + 2.90%~~	~~$411,500~~
$0	$44,725	$0.00 + 0.00%	$0
$44,725	$225,975	$0.00 + 1.95%	$44,725
$225,975		$3,534.38 + 2.50%	$225,975

b. Married filing jointly and surviving spouse~~qualifying widow or widower is one and one-half percent of North Dakota taxable income exceeding seventy-four thousand seven hundred fifty dollars~~.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~	~~$62,600~~	~~1.10%~~	~~$0~~
~~$62,600~~	~~$151,200~~	~~$688.60 + 2.04%~~	~~$62,600~~
~~$151,200~~	~~$230,450~~	~~$2,496.04 + 2.27%~~	~~$151,200~~
~~$230,450~~	~~$411,500~~	~~$4,295.02 + 2.64%~~	~~$230,450~~
~~$411,500~~		~~$9,074.74 + 2.90%~~	~~$411,500~~
$0	$74,750	$0.00 + 0.00%	$0
$74,750	$275,100	$0.00 + 1.95%	$74,750
$275,100		$3,906.83 + 2.50%	$275,100

c. Married filing separately~~is one and one-half percent of North Dakota taxable income exceeding thirty-seven thousand three hundred seventy-five dollars~~.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~ ~~$31,300~~	~~1.10%~~	~~$0~~	
~~$31,300~~	~~$75,600~~	~~$344.30 + 2.04%~~	~~$31,300~~
~~$75,600~~	~~$115,225~~	~~$1,248.02 + 2.27%~~	~~$75,600~~
~~$115,225~~	~~$205,750~~	~~$2,147.51 + 2.64%~~	~~$115,225~~
~~$205,750~~		~~$4,537.37 + 2.90%~~	~~$205,750~~
$0	$37,375	$0.00 + 0.00%	$0
$37,375	$137,550	$0.00 + 1.95%	$37,375
$137,550		$1,953.41 + 2.50%	$137,550

d. Head of household~~is one and one-half percent of North Dakota taxable income exceeding fifty-nine thousand nine hundred fifty dollars~~.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~ ~~$50,200~~	~~1.10%~~	~~$0~~	
~~$50,200~~	~~$129,600~~	~~$552.20 + 2.04%~~	~~$50,200~~

~~$129,600~~	~~$209,850~~	~~$2,171.96 + 2.27%~~	~~$129,600~~
~~$209,850~~	~~$411,500~~	~~$3,993.64 + 2.64%~~	~~$209,850~~
~~$411,500~~		~~$9,317.20 + 2.90%~~	~~$411,500~~
$0	$59,950	$0.00 + 0.00%	$0
$59,950	$250,550	$0.00 + 1.95%	$59,950
$250,550		$3,716.70 + 2.50%	$250,550

e. Estates and trusts ~~is one and one-half percent of North Dakota taxable income exceeding three thousand dollars~~.

If North Dakota taxable income is:

Over	Not over	The tax is equal to	Of amount over
~~$0~~ ~~$2,500~~	~~1.10%~~	~~$0~~	
~~$2,500~~	~~$5,900~~	~~$27.50 + 2.04%~~ ~~$2,500~~	
~~$5,900~~	~~$9,050~~	~~$96.86 + 2.27%~~ ~~$5,900~~	
~~$9,050~~	~~$12,300~~	~~$168.37 + 2.64%~~	~~$9,050~~
~~$12,300~~		~~$254.17 + 2.90%~~	~~$12,300~~
$0	$3,000	$0.00 + 0.00%	$0
$3,000	$10,750	$0.00 + 1.95%	$3,000
$10,750		$151.13 + 2.50%	$10,750

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

(1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and

(2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. The tax commissioner shall prescribe new rate schedules~~rates~~ that apply in lieu of the schedules~~rates~~ set forth in subdivisions a through e. The new schedules~~rates~~ must be determined by increasing the minimum and maximum~~North Dakota taxable income threshold~~ dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes.

h. The tax commissioner shall prescribe an optional simplified method of computing tax under this section that may be used by an individual taxpayer who is not entitled to claim an adjustment under subsection 2 or credit against income tax liability under subsection 7.

SECTION 5. LEGISLATIVE TAX RELIEF ADVISORY COMMITTEE - TAX RELIEF STUDY - REPORT TO LEGISLATIVE MANAGEMENT.

1. During the 2023-24 interim, the legislative management shall consider appointing a legislative tax relief advisory committee.
2. If appointed, the committee must consist of three members of the finance and taxation standing committee of the house of representatives and three members of the finance and taxation standing committee of the senate, appointed by the respective majority leaders of the house of representatives and senate. The legislative management shall designate the chairman of the committee. The committee shall operate according to the statutes and procedures governing the operation of other legislative management interim committees.
3. If appointed, the committee shall study tax relief, including income and property tax relief.
   a. Based on information provided by the tax department, the study must include consideration of:

(1) Historical income and property tax relief provided by the legislative assembly, including the estimated and actual fiscal impact of the tax relief;

(2) An analysis of the tax relief provided by the sixty-eighth legislative assembly through individual income tax rate changes, a primary residence credit, and an expansion of the homestead credit, including the estimated fiscal impact for each method of tax relief and the effect of the income tax rate changes on passthrough income related to income reported on K 1 forms and royalty income reported on 1099 MISC forms;

(3) Options to implement a flat individual income tax rate, including the estimated fiscal impact of the options; and

(4) Options to adjust the individual income tax structure to eliminate the individual income tax in a future biennium, including the estimated fiscal impact of the options.

b. The committee may consider input from local taxing districts regarding the administration of the primary residence credit and the homestead credit.

c. The committee shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-ninth legislative assembly.

SECTION 6. APPROPRIATION - TAX DEPARTMENT - PROPERTY TAX RELIEF - ONE-TIME FUNDING. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $158,225,000, or so much of the sum as may be necessary, to the tax commissioner for property tax relief programs during the biennium beginning July 1, 2023, and ending June 30, 2025, as follows:

1. $103,225,000 for paying the state reimbursement under the primary residence credit;
2. $53,500,000 for paying the state reimbursement under the homestead credit; and
3. $1,500,000, which is considered a one-time funding item, for operating expenses related to information technology and advertising costs for the primary residence credit.

SECTION 7. EFFECTIVE DATE - EXPIRATION DATE. Section 2 of this Act is effective for the first two taxable years beginning after December 31, 2023, and after that date is ineffective.

SECTION 8. EFFECTIVE DATE. ~~This~~Sections 1 and 4 of this Act ~~is~~are effective for taxable years beginning after December 31, 2022. Section 3 of this Act becomes effective on July 1, 2024.

SECTION 9. EXPIRATION DATE. Section 3 of this Act is effective through June 30, 2026, and after that date is ineffective.