

Major Proposals for the 1973 Legislature

by

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I am setting out below some of the recommendations that I will make to the 1973 Legislature for improving this state's tax system.

1. Income Tax Simplification - It is essential that the 1973 Legislature improve our income tax law. As it is currently written, the state accepts the Federal tax provisions only through December 31, 1968. As a result, North Dakotans are asked to make numerous adjustments on their income tax returns to compensate for the 1969 and 1971 Federal tax reform acts. Also, because the state is four years behind the Federal government in updating its income tax laws, the North Dakota citizens are still allowed only a \$600 personal exemption and a \$1000 minimum standard deduction on their state returns. Our current income tax law is the most illogical state income tax law in the United States and it must be modernized.

I would recommend that a new income tax law provide that any person earning less than \$3,000 a year be exempt from filing a state income tax return. Over 60,000 persons earning less than \$3,000 a year file North Dakota income tax returns and pay an average of \$5 per return filed. In those cases, it costs more to have the taxpayer prepare the return and the Tax Department to process it, than the ultimate tax paid. There is no logic in continuing to impose the income tax on those citizens earning less than \$3,000 a year.

I will recommend that the State Legislature reconsider the type of bill that was killed in the last session which would have used a percentage of the Federal liability to determine a person's state income tax payment. There is no need to raise individual income taxes and the rate structure in a new bill should be designed to assure the citizens that it does not represent a tax increase.

2. Increase Corporate Income Tax - I believe the North Dakota corporate income tax should be increased. I would recommend that the legislature adopt a single tax rate and that they disallow the Federal income tax deduction on the corporate return.

Thousands of North Dakota small businesses are sole proprietorships or partnerships and in many cases compete for business with large corporations. At certain income levels the small businessman, filing an individual income tax return, is being asked to pay nearly twice the rate of income tax that his competition, the large corporation, is asked to pay. This is unfair and needs to be changed.

At income levels above \$15,000, corporations are asked to pay barely one half the tax rate that an individual is asked to pay. The North Dakota effective tax rate on corporations is barely 3%, while even a moderate state corporate income tax would be 5% to 7%. North Dakota has a law which may permit a five year exemption from income and property tax for a new corporation moving into the state. Our state has an obligation to create an environment within which a business has an opportunity to make a profit, but when a profit is made I don't feel the business will mind paying a moderate income tax.

The disallowance of the Federal income tax on the state return is an attractive method of increasing the corporation income tax with minimum affect on the corporation. In most instances the corporations will only have to pay one half of the tax increase, because they are able to deduct the added state tax liability on their Federal return and reduce their Federal tax by about 50% of the increased state tax. In short, it is almost a forced type of revenue sharing program sending Federal monies to the state with the corporation as the intermediary.

Nearly one half of the corporate income taxes come from 40 corporations (out of 5,000 filers) and all but one of these are out-of-state corporations.

3. Repeal the Business and Corporation Privilege Tax (not including the bank and building and loan special tax) - When the personal property tax was repealed (just over \$19 million tax), an additional 1% sales tax was enacted (to raise \$14 million) and a business and corporation privilege tax was enacted (to raise just over \$5 million) to replace the lost revenue.

The sales tax revenues have far exceeded expectations. This, coupled with a moderate increase in corporate income taxes, would allow the repeal of the business privilege tax.

The business privilege tax is arbitrary in application and burdensome on the low income groups with just over \$600 business income. The test of "What is business income?" requires difficult judgments to be exercised by tax practitioners and as a result we have a lack of uniformity in application. The business privilege tax is full of available loopholes for those electing to incorporate and is little more than an income tax against selected taxpayers. It is the kind of a tax that infuriates taxpayers. Normally, people don't mind paying a reasonable tax on income, but, the taxing of a person for the privilege of doing business in North Dakota has stretched their patience. The business privilege tax has served its purpose by serving as a revenue measure in the interim period to allow the repeal of personal property tax. Now I believe that the repeal of the business privilege tax will significantly improve our tax system.

4. Property Tax Reforms - An article in Fortune magazine recently described North Dakota's property tax as perhaps the most decentralized in the United States. With nearly 1800 assessors, our state has fractionalized the authorities in this area so badly that it is virtually impossible to get quality assessments.

We need:

1. A strengthening of the County Director of Tax Equalization Law, which would place the County Director in charge of all of the assessing in each county, and which would delegate the authority to the Director to accomplish that task. (A logical exception would be the large cities which have full time assessors).
2. Legislation to allow assessors to get current information on property sales in the state in order that they may establish a basis for their assessments.
3. A more realistic approach for providing property tax relief to low income and senior citizens. The relief must be funded by the state and I recommend a circuit breaker plan which relates property tax to income.

The property tax is the single largest tax in North Dakota and the administration of it must be improved. The only way of accomplishing this is to pass enabling legislation.

5. Exempt Groceries From Sales Tax - As a result of action by the 1969 Legislature, nearly 1/3 of the North Dakotan's grocery bill is now exempt from the sales tax. Poultry, fresh and cured meat, and dairy products are non-taxable. I propose that we exempt the remaining groceries from the sales tax. It appears that this exemption would cost about \$5 million a year or \$10 million for the biennium.

The unexpected productivity of the sales and income tax will leave the state at the end of this biennium with a large general fund balance. I believe that part of that money should be returned to the North Dakota taxpayer.

6. General Withholding - General state income tax withholding has not been practical in previous years because of the low rates on the bottom income groups. Mandatory income tax withholding would have resulted in some instances, asking an employer to withhold \$.50 a month from an employee's wages. This was impractical. However, if the legislature would eliminate the income tax filing requirement for citizens earning \$3000 or less, a general income tax withholding law would be advisable.

A general withholding law would ease the burdens of the wage earner in complying with the income tax laws of this state.

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