



Proposed Rate Cuts Would Make North Dakota Tax System More Unfair

North Dakota Legislators are proposing nearly a half billion dollars in tax cuts, reductions and exemptions this session. Some of those tax breaks may be warranted, but they should be targeted primarily to North Dakotans working to sustain or achieve a middle class life.

One proposal under consideration in the Legislature would reduce the rates associated with each of North Dakota's income tax brackets by 10-20%. As HB 1289 moves into conference committee, the rate reduction currently stands at 15%. This proposal would cost \$100 million over the upcoming two-year budget cycle.

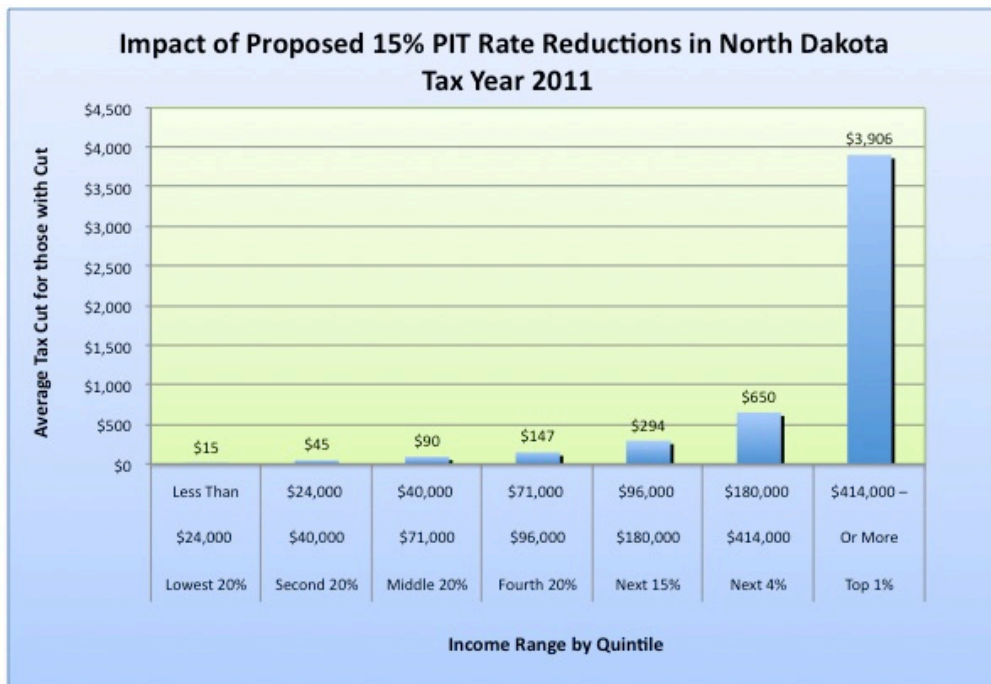
If enacted, the rate cuts will make North Dakota's tax system even more unfair than it already is. By adding to the rate cuts an Earned Income Tax Credit targeted to working families with low incomes, the proposal could be improved.



Who benefits the most from the proposed rate cuts?

Nearly all of North Dakota's highest-income households (97%) would receive a tax cut under HB1289. The average tax cut for the highest-income one percent of households – those with incomes over \$417,000 would be nearly \$4,000. By contrast, only a third of those making under \$24,000 annually will see any tax cut at all. And if they do get a tax cut, it would only be worth about \$15.

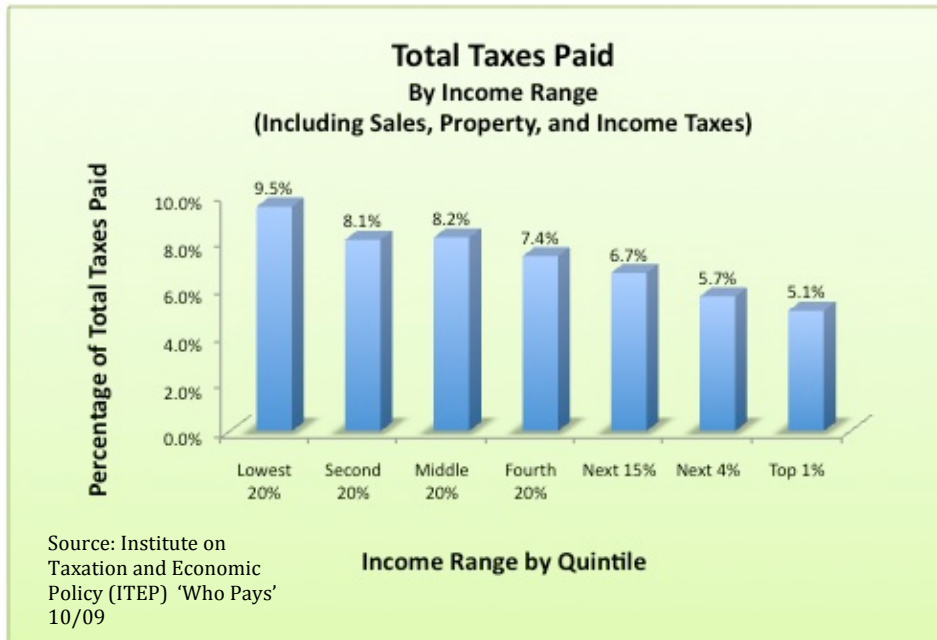
Two-thirds of the tax change would go to those making over \$96,000. Only 5% goes to those making \$40,000 or less.



*Income Range based on total income not taxable income and is divided into quintile rather than tax bracket.
Source: Institute on Taxation and Economic Policy

How does this proposal impact tax fairness?

Currently, middle class and low-income North Dakotans pay a greater share of their income in state and local taxes than those with much higher incomes. That is, the tax system is upside down – those with less ability to pay are asked to pay more, as a share of their income.



Under HB 1289, this unfair system will just get worse. The tax cut received by the highest-income one percent of North Dakotans would equal 0.4 percent of their income. By contrast, the tax cut for middle-income North Dakotans would be worth only about 0.2 percent of income. And the cut for the poorest households would be so small as to hardly register as a share of income.

What's a better plan?

A refundable state Earned Income Tax Credit (EITC) would target benefits to low and moderate-income North Dakotans and offset the other taxes they pay. They would receive, on average, \$180 from a 10% refundable state EITC.

Over the biennium, a state EITC would be a \$17 million investment in North Dakota's working families. Compare that to the \$100 million price tag of the individual income tax rate reduction targeted largely to those in the top 20% of income earners.

Any income tax rate reduction passed by the legislature should be targeted primarily to working families. Enacting a state EITC instead of the rate reduction would do just that. Alternatively, adding a 10% EITC to the rate cuts would improve the current proposal, by better targeting the tax cut to those who need it most.