

**FIRST ENGROSSMENT
with Conference Committee Amendments****ENGROSSED HOUSE BILL NO. 1399**

Introduced by

Representatives Carlson, Kasper, Koppelman, Wald

Senators Christmann, G. Nelson

1 A BILL for an Act to amend and reenact sections 57-38-30.3 and 57-38-31.1 of the North
2 Dakota Century Code, relating to determination of income tax liability on the short-form state
3 income tax return and the filing of composite returns; to repeal section 57-38-34.1 of the North
4 Dakota Century Code, relating to an optional card income tax return; and to provide an effective
5 date.

6 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

7 **SECTION 1. AMENDMENT.** Section 57-38-30.3 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 57-38-30.3. Simplified optional method of computing tax.

- 10 1. Notwithstanding the other provisions of this chapter, an individual, estate, or trust
11 may elect to determine state income tax liability by applying the provisions of this
12 section. Any taxpayer electing to determine the taxpayer's income tax liability
13 pursuant to this section is only eligible for those adjustments or credits which are
14 specifically provided for in this section. Provided, that for purposes of this section,
15 any person required to file a state income tax return pursuant to the provisions of
16 this chapter, but who has not computed a federal taxable income ~~or federal income~~
17 ~~tax liability~~ figure shall compute such a federal taxable income figure using a
18 pro forma return pursuant to the provisions of this section in order to determine a
19 federal taxable income ~~tax liability~~ figure to be used as a starting point in
20 computing state income tax.
- 21 2. A tax is hereby imposed for each taxable year upon income earned or received in
22 that taxable year by every resident and nonresident individual, estate, and trust.
23 ~~This tax is fourteen percent of the individual's, estate's, or trust's adjusted federal~~
24 ~~income tax liability for the taxable year~~ The tax for individuals is equal to North

1 Dakota taxable income multiplied by the rates in the applicable rate schedule in
2 subdivisions a through d corresponding to an individual's filing status used for
3 federal income tax purposes. For an estate or trust, the schedule in subdivision e
4 must be used for purposes of this subsection. For a nonresident individual, estate,
5 or trust, the tax is equal to the tax determined in accordance with the applicable
6 schedule in subdivisions a through e multiplied by the fraction under subdivision f.

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

| <u>If North Dakota taxable income is:</u> | <u>The tax is equal to:</u> |
|---|--|
| 9 <u>Not over \$27,050</u> | <u>2.10%</u> |
| 11 <u>Over \$27,050 but not over \$65,550</u> | <u>\$568.05 plus 3.92% of amount over \$27,050</u> |
| 12 <u>Over \$65,550 but not over \$136,750</u> | <u>\$2,077.25 plus 4.34% of amount over \$65,550</u> |
| 13 <u>Over \$136,750 but not over \$297,350</u> | <u>\$5,167.33 plus 5.04% of amount over \$136,750</u> |
| 14 <u>Over \$297,350</u> | <u>\$13,261.57 plus 5.54% of amount over \$297,350</u> |

15 b. Married filing jointly and surviving spouse.

| <u>If North Dakota taxable income is:</u> | <u>The tax is equal to:</u> |
|---|--|
| 17 <u>Not over \$45,200</u> | <u>2.10%</u> |
| 19 <u>Over \$45,200 but not over \$109,250</u> | <u>\$949.20 plus 3.92% of amount over \$45,200</u> |
| 20 <u>Over \$109,250 but not over \$166,500</u> | <u>\$3,459.96 plus 4.34% of amount over \$109,250</u> |
| 21 <u>Over \$166,500 but not over \$297,350</u> | <u>\$5,944.61 plus 5.04% of amount over \$166,500</u> |
| 22 <u>Over \$297,350</u> | <u>\$12,539.45 plus 5.54% of amount over \$297,350</u> |

23 c. Married filing separately.

| <u>If North Dakota taxable income is:</u> | <u>The tax is equal to:</u> |
|--|---|
| 25 <u>Not over \$22,600</u> | <u>2.10%</u> |
| 27 <u>Over \$22,600 but not over \$54,625</u> | <u>\$474.60 plus 3.92% of amount over \$22,600</u> |
| 28 <u>Over \$54,625 but not over \$83,250</u> | <u>\$1,729.98 plus 4.34% of amount over \$54,625</u> |
| 29 <u>Over \$83,250 but not over \$148,675</u> | <u>\$2,972.31 plus 5.04% of amount over \$83,250</u> |
| 30 <u>Over \$148,675</u> | <u>\$6,269.73 plus 5.54% of amount over \$148,675</u> |

31 d. Head of household.

| <u>If North Dakota taxable income is:</u> | <u>The tax is equal to:</u> |
|---|--|
| 33 <u>Not over \$36,250</u> | <u>2.10%</u> |
| 35 <u>Over \$36,250 but not over \$93,650</u> | <u>\$761.25 plus 3.92% of amount over \$36,250</u> |
| 36 <u>Over \$93,650 but not over \$151,650</u> | <u>\$3,011.33 plus 4.34% of amount over \$93,650</u> |
| 37 <u>Over \$151,650 but not over \$297,350</u> | <u>\$5,528.53 plus 5.04% of amount over \$151,650</u> |
| 38 <u>Over \$297,350</u> | <u>\$12,871.81 plus 5.54% of amount over \$297,350</u> |

39 e. Estates and trusts.

| <u>If North Dakota taxable income is:</u> | <u>The tax is equal to:</u> |
|---|---|
| 41 <u>Not over \$1,800</u> | <u>2.10%</u> |
| 43 <u>Over \$1,800 but not over \$4,250</u> | <u>\$37.80 plus 3.92% of amount over \$1,800</u> |
| 44 <u>Over \$4,250 but not over \$6,500</u> | <u>\$133.84 plus 4.34% of amount over \$4,250</u> |

| | | |
|---|--|---|
| 1 | <u>Over \$6,500 but not over \$8,900</u> | <u>\$231.49 plus 5.04% of amount over \$6,500</u> |
| 2 | <u>Over \$8,900</u> | <u>\$352.45 plus 5.54% of amount over \$8,900</u> |

- 3 f. For a nonresident individual, estate, or trust, the tax determined under the
4 applicable schedule in subdivisions a through e must be multiplied by a
5 fraction in which:
- 6 (1) The numerator is the individual's federal adjusted gross income derived
7 from North Dakota sources; and
- 8 (2) The denominator is the individual's federal adjusted gross income from
9 all sources reduced by the net income from the amounts specified in
10 subdivisions a and b of subsection 3.
- 11 g. If married individuals who file a joint federal income tax return are required to
12 file separate state income tax returns under any provision of this chapter, the
13 tax under this subsection for each spouse must be determined by applying
14 the rates under subdivision b to the spouses' joint North Dakota taxable
15 income and prorating the result between the spouses based on their separate
16 North Dakota taxable incomes.
- 17 h. For taxable years beginning after December 31, 2001, the tax commissioner
18 shall prescribe new rate schedules that apply in lieu of the schedules set forth
19 in subdivisions a through e. The new schedules must be determined by
20 increasing the minimum and maximum dollar amounts for each income
21 bracket for which a tax is imposed by the cost-of-living adjustment for the
22 taxable year as determined by the secretary of the United States treasury for
23 purposes of section 1(f) of the United States Internal Revenue Code of 1954,
24 as amended. For this purpose, the rate applicable to each income bracket
25 may not be changed, and the manner of applying the cost-of-living adjustment
26 must be the same as that used for adjusting the income brackets for federal
27 income tax purposes.
- 28 3. ~~The adjusted federal income tax liability for a resident individual, estate, and trust~~
29 ~~must be determined by multiplying the federal income tax liability by a fraction, the~~
30 ~~numerator of which is the adjusted gross income taxable to this state and the~~
31 ~~denominator of which is the total adjusted gross income as reported on the federal~~
32 ~~income tax return. To the extent they are included in the taxpayer's federal~~

- 1 ~~adjusted gross income, the following amounts must be excluded from the~~
2 ~~numerator~~ For purposes of this section, "North Dakota taxable income" means the
3 federal taxable income of an individual, estate, or trust as computed under the
4 Internal Revenue Code of 1986, as amended, adjusted as follows:
- 5 a. ~~Interest~~ Reduced by interest income from obligations of the United States and
6 income exempt from state income tax under federal statute or United States
7 or North Dakota constitutional provisions.
 - 8 b. ~~The~~ Reduced by the portion of a distribution from a qualified investment fund
9 described in section 57-38-01 which is attributable to investments by the
10 qualified investment fund in obligations of the United States, obligations of
11 North Dakota or its political subdivisions, and any other obligation the interest
12 from which is exempt from state income tax under federal statute or United
13 States or North Dakota constitutional provisions.
 - 14 c. ~~An~~ Reduced by the amount equal to the earnings that are passed through to
15 a taxpayer in connection with an allocation and apportionment to North
16 Dakota under chapter 57-35.3.
 - 17 d. Reduced by thirty percent of the excess of the taxpayer's net long-term capital
18 gain for the taxable year over the net short-term capital loss for that year, as
19 computed for purposes of the Internal Revenue Code of 1986, as amended.
 - 20 e. Increased by the amount of a lump sum distribution for which income
21 averaging was elected under section 402 of the Internal Revenue Code of
22 1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the
23 taxpayer received the lump sum distribution while a nonresident of this state
24 and the distribution is exempt from taxation by this state under federal law.
 - 25 f. Increased by an amount equal to the losses that are
26 passed through to a taxpayer in connection with an allocation and
27 apportionment to North Dakota under chapter 57-35.3.
- 28 4. ~~The adjusted federal income tax liability of a nonresident individual, estate, and~~
29 ~~trust must be determined by multiplying the federal income tax liability by a~~
30 ~~fraction, the numerator of which is the adjusted gross income derived from sources~~
31 ~~within this state and the denominator of which is the total adjusted gross income as~~

- 1 ~~reported on the federal income tax return. To the extent they are included in the~~
2 ~~taxpayer's federal adjusted gross income, the following amounts must be excluded~~
3 ~~from the numerator:~~
- 4 ~~a: Interest income from obligations of the United States and income exempt~~
5 ~~from state income tax under federal statute or United States or North Dakota~~
6 ~~constitutional provisions.~~
- 7 ~~b: The portion of a distribution from a qualified investment fund described in~~
8 ~~section 57-38-01 which is attributable to investments by the qualified~~
9 ~~investment fund in obligations of the United States, obligations of North~~
10 ~~Dakota or its political subdivisions, and any other obligation the interest from~~
11 ~~which is exempt from state income tax under federal statute or United States~~
12 ~~or North Dakota constitutional provisions.~~
- 13 ~~e: An amount equal to the earnings that are passed through to a taxpayer in~~
14 ~~connection with an allocation and apportionment to North Dakota under~~
15 ~~chapter 57-35.3.~~
- 16 5: ~~For purposes of this section, "federal income tax liability" means the individual's,~~
17 ~~estate's, or trust's federal income tax computed for the taxable year under Internal~~
18 ~~Revenue Code sections 1 and 3, relating to the computation of the regular federal~~
19 ~~income tax before credits, including calculation and tax rate modifications~~
20 ~~prescribed under other provisions of the Internal Revenue Code, adjusted as~~
21 ~~follows:~~
- 22 ~~a: Add the alternative minimum tax computed under Internal Revenue Code~~
23 ~~section 55;~~
- 24 ~~b: Add the tax on a lump sum distribution computed under Internal Revenue~~
25 ~~Code section 402; however, this adjustment does not apply if the lump sum~~
26 ~~distribution is received while a nonresident of this state and is exempt from~~
27 ~~taxation by this state under federal law;~~
- 28 ~~e: Add the tax on an accumulation distribution of a trust computed under Internal~~
29 ~~Revenue Code section 667;~~
- 30 ~~d: Add the tax computed under Internal Revenue Code section 72(m)(5) on~~
31 ~~excess benefits received from a qualified plan under Internal Revenue Code~~

- 1 ~~section 401(a) or a qualified annuity under Internal Revenue Code section~~
2 ~~403(a);~~
- 3 e. ~~Add the tax computed under Internal Revenue Code section 72(q)(1) on an~~
4 ~~early distribution from an annuity contract;~~
- 5 f. ~~Add the tax computed under Internal Revenue Code section 72(t)(1) on an~~
6 ~~early distribution from a qualified retirement plan;~~
- 7 g. ~~Add the tax computed under Internal Revenue Code section 4973(a) on~~
8 ~~excess contributions to an individual retirement account, medical savings~~
9 ~~account, and certain Internal Revenue Code section 403(b) and annuity~~
10 ~~contracts; however, this adjustment does not apply if the individual, estate, or~~
11 ~~trust is a nonresident of this state;~~
- 12 h. ~~Add the tax computed under Internal Revenue Code section 4974(a) on~~
13 ~~excess accumulations in a qualified retirement plan; however, this adjustment~~
14 ~~does not apply if the individual, estate, or trust is a nonresident of this state;~~
- 15 i. ~~Add the tax computed under Internal Revenue Code section 4980A on~~
16 ~~excess distributions from a qualified retirement plan; and~~
- 17 j. ~~Subtract the credit for prior year minimum tax computed under Internal~~
18 ~~Revenue Code section 53.~~

19 ~~Unless specifically provided for in this subsection, no federal income tax credit may~~
20 ~~be subtracted in determining the federal income tax liability for purposes of this~~
21 ~~section. Each adjustment in subsection 3 may be allowed only to the extent the~~
22 ~~adjustment is attributable to income allocated and apportioned to this state.~~

23 ~~6.~~ 5. ~~A husband and wife married individuals filing a joint federal income tax return shall~~
24 ~~file a joint state income tax return if the return is filed under this section. If~~
25 ~~separate federal income tax returns are filed, one spouse's state income tax return~~
26 ~~may be filed under this section and the other spouse's income tax return may be~~
27 ~~filed under the other provisions of this chapter.~~

28 ~~7.~~ 6. a. A resident individual, estate, or trust must be allowed a credit against the tax
29 otherwise due under this section for the amount of any income tax imposed
30 on the taxpayer for the taxable year by another state or territory of the United

1 States or the District of Columbia on income derived from sources therein and
2 which is also subject to tax under this section.

3 b. The credit provided under this subsection may not exceed the proportion of
4 the tax otherwise due under this section that the amount of the taxpayer's
5 adjusted gross income derived from sources in the other taxing jurisdiction
6 bears to the taxpayer's ~~entire~~ federal adjusted gross income as reported on
7 the taxpayer's federal income tax return.

8 ~~8- 7.~~ a- Individuals, estates, or trusts ~~receiving a refund of~~ that file an amended
9 federal income tax return changing their federal taxable income figure for a
10 year for which an election to file state income tax returns has been made
11 under this section shall file an amended state income tax ~~returns reducing the~~
12 ~~federal income tax liability for the year for which the federal income tax refund~~
13 ~~is granted and may not report~~ return to reflect the changes on the federal
14 income tax ~~refund in the year received~~ return.

15 b- ~~Individuals, estates, or trusts assessed additional federal income tax for a~~
16 ~~year for which an election to file state income tax returns has been made~~
17 ~~under this section shall file amended state income tax returns increasing the~~
18 ~~federal income tax liability for the year for which the additional federal income~~
19 ~~tax is assessed and may not report increased federal income tax liability in~~
20 ~~the year in which the additional federal income tax is paid.~~

21 ~~9- 8.~~ 8. The tax commissioner may prescribe procedures and guidelines to prevent
22 requiring income that had been previously taxed under this chapter from becoming
23 taxed again because of the provisions of this section and may prescribe
24 procedures and guidelines to prevent any income from becoming exempt from
25 taxation because of the provisions of this section if it would otherwise have been
26 subject to taxation under the provisions of this chapter.

27 ~~40- 9.~~ 9. A taxpayer filing a return under this section is entitled to the credit provided under
28 section 57-38-01.20.

29 ~~44- 10.~~ 10. A taxpayer filing a return under this section is entitled to the exemptions or credits
30 provided under sections 40-63-04, 40-63-06, and 40-63-07.

1 income as defined in section 1301 of the Internal Revenue Code of 1986 [26
2 U.S.C. 1301], as amended.

3 c. The reduction in North Dakota taxable income under this subsection must be
4 taken into account for purposes of making an election under this subsection
5 for any subsequent taxable year.

6 d. The tax commissioner may prescribe rules, procedures, or guidelines
7 necessary to administer this subsection.

8 13. The tax commissioner may prescribe tax tables, to be used in computing the tax
9 according to subsection 2, if the amounts of the tax tables are based on the tax
10 rates set forth in subsection 2. If prescribed by the tax commissioner, the tables
11 must be followed by every individual, estate, or trust determining a tax under this
12 section.

13 **SECTION 2. AMENDMENT.**Section 57-38-31.1 of the North Dakota Century Code is
14 amended and reenacted as follows:

15 **57-38-31.1. Composite returns.** Partnerships and subchapter S corporations may file
16 a composite return on behalf of nonresident individual partners or shareholders in the manner
17 prescribed by the tax commissioner. Any amount of tax paid by the partnership or
18 subchapter S corporation on the composite return on behalf of a nonresident partner or
19 shareholder constitutes a credit on the North Dakota return of the nonresident individual on
20 whose behalf the tax was paid by the partnership or subchapter S corporation. Any return filed
21 by a partnership or subchapter S corporation under this section is considered as the return of
22 the nonresident individual partner or shareholder on whose behalf the return is filed. The tax
23 under this section must be computed by multiplying the aggregate of the shares of North
24 Dakota taxable income reportable to North Dakota by the partners or shareholders included in
25 the composite return by the highest federal tax rate for individuals times the tax rate imposed
26 under section ~~57-38-30.3~~ five and fifty-four hundredths percent.

27 **SECTION 3. REPEAL.** Section 57-38-34.1 of the North Dakota Century Code is
28 repealed.

29 **SECTION 4. EFFECTIVE DATE.** This Act is effective for taxable years beginning after
30 December 31, 2000.