

**HOUSE BILL NO. 1040**

Introduced by

Legislative Council

(Taxation Committee)

1 A BILL for an Act to amend and reenact subsection 2 of section 57-38-30.3 of the North Dakota  
2 Century Code, relating to income taxes on interest on dividends from foreign securities and  
3 securities of states and their political subdivisions under the simplified method of computing  
4 income taxes; and to provide an effective date.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1. AMENDMENT.** Subsection 2 of section 57-38-30.3 of the North Dakota  
7 Century Code is amended and reenacted as follows:

- 8 2. For purposes of this section, "North Dakota taxable income" means the federal  
9 taxable income of an individual, estate, or trust as computed under the Internal  
10 Revenue Code of 1986, as amended, adjusted as follows:
- 11 a. Reduced by interest income from obligations of the United States and income  
12 exempt from state income tax under federal statute or United States or North  
13 Dakota constitutional provisions.
  - 14 b. Reduced by the portion of a distribution from a qualified investment fund  
15 described in section 57-38-01 which is attributable to investments by the  
16 qualified investment fund in obligations of the United States, obligations of  
17 North Dakota or its political subdivisions, and any other obligation the interest  
18 from which is exempt from state income tax under federal statute or United  
19 States or North Dakota constitutional provisions.
  - 20 c. Reduced by the amount equal to the earnings that are passed through to a  
21 taxpayer in connection with an allocation and apportionment to North Dakota  
22 under chapter 57-35.3.

- 1           d.   Reduced by thirty percent of the excess of the taxpayer's net long-term capital  
2           gain for the taxable year over the net short-term capital loss for that year, as  
3           computed for purposes of the Internal Revenue Code of 1986, as amended.
- 4           e.   Increased by the amount of a lump sum distribution for which income  
5           averaging was elected under section 402 of the Internal Revenue Code of  
6           1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the  
7           taxpayer received the lump sum distribution while a nonresident of this state  
8           and the distribution is exempt from taxation by this state under federal law.
- 9           f.   Increased by an amount equal to the losses that are passed through to a  
10          taxpayer in connection with an allocation and apportionment to North Dakota  
11          under chapter 57-35.3.
- 12          g.   Reduced by the amount received by the taxpayer as payment for services  
13          performed when called or ordered to title 10 United States Code federal  
14          service as a member of the national guard or reserve member of the armed  
15          forces of the United States. This subdivision does not apply to federal service  
16          while attending annual training, basic military training, professional military  
17          education, or active guard and reserve tours for which the member has  
18          volunteered.
- 19          h.   Reduced by income from a new and expanding business exempt from state  
20          income tax under section 40-57.1-04.
- 21          i.   Reduced by interest and income from bonds issued under chapter 11-37.
- 22          j.   Increased by the amount of any interest and dividends from foreign securities  
23          and from securities of states and their political subdivisions exempt from  
24          federal income tax which are purchased after December 31, 2005, but not by  
25          interest upon obligations of the state of North Dakota or any of its political  
26          subdivisions.

27           **SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after  
28   December 31, 2004.