



## ESTIMATED IMPACT OF TAX CUTS AND JOBS ACT OF 2017 ON NORTH DAKOTA INDIVIDUAL INCOME TAX COLLECTIONS FOR 2017-19 BIENNIUM

The federal Tax Cuts and Jobs Act of 2017 will provide significant federal tax relief to nearly all North Dakota taxpayers. How the federal changes will affect North Dakota individual income taxpayers is difficult to determine and will depend upon each taxpayer's unique circumstances. Our analysis deals only with the major provisions affecting most individuals and does not attempt to quantify the effects of changes relating to deductions for business asset purchases or business income of pass-through entities.

The starting point for the calculation of North Dakota income tax is federal taxable income. Federal changes that affect taxable income include the increased standard deduction, elimination of personal and dependency exemptions, and changes to allowable itemized deductions. Because more than 80 percent of North Dakota taxpayers currently utilize the standard deduction, and since that percentage is expected to significantly increase as the standard deduction amount will be nearly double, our analysis excludes the impact of changes to itemized deductions.

The near doubling of the standard deduction reduces taxable income. However, the elimination of personal and dependency exemptions has an offsetting impact because it raises taxable income. The lowered federal tax rates and increased child tax credits are two primary changes that benefit taxpayers by reducing federal tax liability; however, these two changes will not affect the North Dakota income tax because they have no impact on the calculation of federal taxable income.

Our analysis uses actual federal adjusted gross income from 2016 tax year filers, inflated by rates of growth consistent with the official state revenue forecast, and applies the standard deduction and exemption changes to all taxpayers. Our analysis indicates the federal changes will be nearly revenue neutral to the state in terms of overall individual income tax collections. However, that is not to say state taxpayers will be unaffected. Some taxpayers will see a reduction in state tax liability and some will see an increase. However, the state's low tax rates make the positive or negative impact relatively minor for most taxpayers, especially when viewed in the context of the significantly larger reduction in federal tax liability.

The federal changes for individual income taxes will not take effect until tax year 2018, which will impact returns filed in 2019. The revenue impact will primarily affect only the second year of the 2017-19 biennium. Our analysis indicates a potential positive change in state individual income tax revenues of less than 1.5 percent for the second year of the biennium.

Taxpayers who currently itemize their deductions will switch to the higher standard deduction in cases where it reduces their tax liability. This preliminary analysis excludes the impact of this reduction in tax liability and corresponding state tax revenue collections. Consequently, the actual revenue impact will likely be less than this initial estimate indicates. Changes to business expensing provisions will also have a negative impact on state revenues as taxpayers take advantage of these provisions to reduce taxable business income. However, the impact is impossible to quantify.