

# North Dakota Taxes Hit Poor & Middle Class Far Harder than the Wealthy

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Low- and middle-income families in North Dakota pay a higher share of their income in state and local taxes than do the richest families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, North Dakota has an unfair tax system.”

## North Dakota’s Tax Code: Tax the Poor & Middle Class Far More Than the Rich

When all North Dakota taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of North Dakota families—with average incomes of \$393,000—is 6.5% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$40,000—is 9.1% before the federal offset and 9% after, almost twice the rate that the richest pay.
- But the tax rate on the poorest North Dakota families—those earning less than \$14,000—pay the highest rate at 10.2%, double the rate that the richest pay.

“North Dakota’s progressive yet anemic income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the poorest should pay a smaller share of their earnings in tax, not the most, as is the case in North Dakota.”

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## **Tax Regressivity Has Lessened Since 1989**

The study also examined the impact of changes in the regressivity of North Dakota taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Overall, North Dakota's tax system became less regressive, with modest tax cuts for lower-income families, and tax hikes on the best-off North Dakotans.
- Income taxes rose progressively following the 1993 federal changes.
- The sales and excise tax burden fell substantially on low- and middle-income taxpayers.

"The declining ability of sales and excise taxes to provide revenue for needed services is on display in North Dakota," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that sales and excise taxes naturally decline over time and are not as reliable as income taxes. In addition, such regressive taxes impose a greater share of the tax burden on low-income taxpayers."

### **Two pages of tables detailing the North Dakota findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

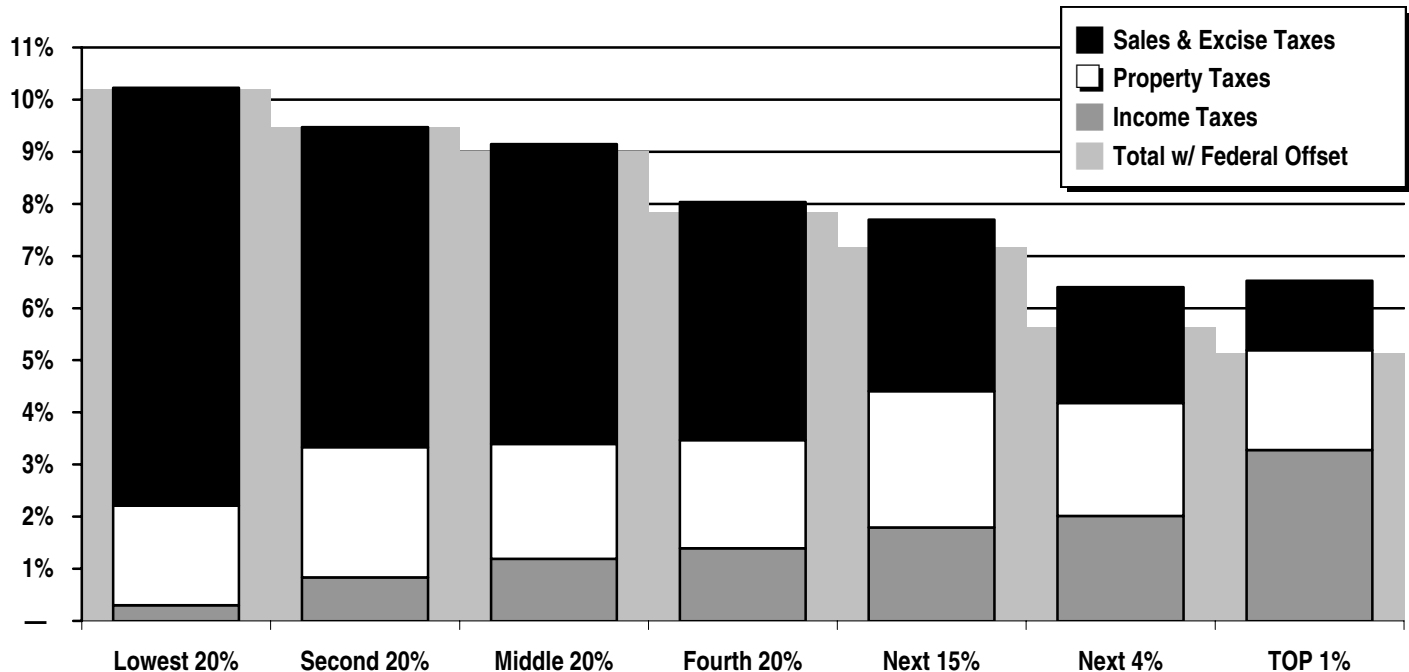
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# North Dakota

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$14,000	\$14,000 – \$25,000	\$25,000 – \$40,000	\$40,000 – \$64,000	\$64,000 – \$114,000	\$114,000 – \$229,000	\$229,000 or more
Average Income in Group	\$8,900	\$19,400	\$32,000	\$50,100	\$80,400	\$156,000	\$393,000
<b>Sales &amp; Excise Taxes</b>	<b>8.0%</b>	<b>6.1%</b>	<b>5.8%</b>	<b>4.6%</b>	<b>3.3%</b>	<b>2.2%</b>	<b>1.3%</b>
General Sales—Individuals	3.5%	2.8%	2.8%	2.3%	1.7%	1.2%	0.8%
Other Sales & Excise—Ind.	1.6%	1.1%	1.0%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.9%	2.2%	2.0%	1.6%	1.1%	0.7%	0.5%
<b>Property Taxes</b>	<b>1.9%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>2.1%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>1.9%</b>
Property Taxes on Families	1.7%	2.4%	2.0%	1.9%	2.2%	1.6%	1.3%
Other Property Taxes	0.2%	0.1%	0.2%	0.2%	0.4%	0.6%	0.6%
<b>Income Taxes</b>	<b>0.3%</b>	<b>0.8%</b>	<b>1.2%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>3.3%</b>
Personal Income Tax	0.3%	0.8%	1.1%	1.4%	1.7%	1.9%	3.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
<b>TOTAL TAXES</b>	<b>10.2%</b>	<b>9.5%</b>	<b>9.1%</b>	<b>8.0%</b>	<b>7.7%</b>	<b>6.4%</b>	<b>6.5%</b>
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.2%	-0.5%	-0.8%	-1.4%
<b>TOTAL AFTER OFFSET</b>	<b>10.2%</b>	<b>9.5%</b>	<b>9.0%</b>	<b>7.8%</b>	<b>7.2%</b>	<b>5.6%</b>	<b>5.1%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# North Dakota Tax Trends

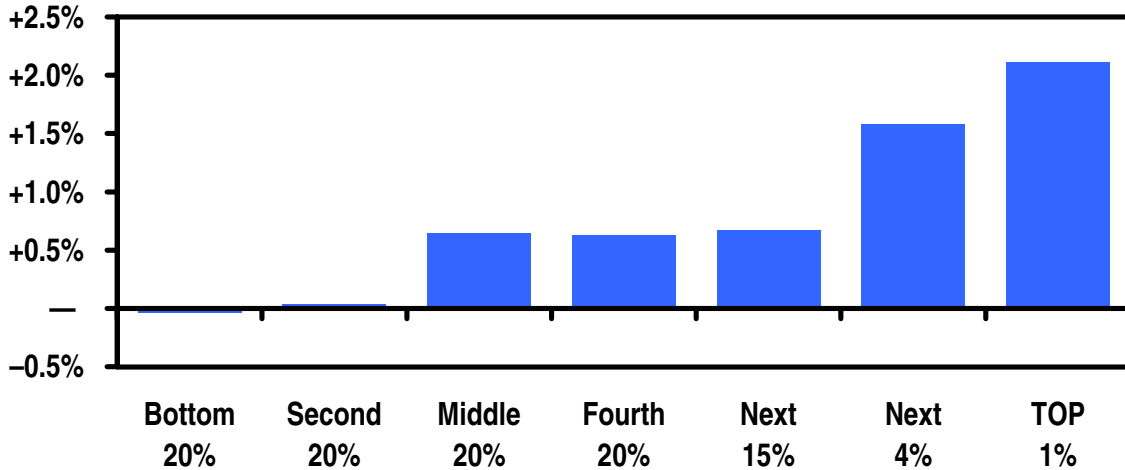
## Progressive Features

- ✓ Graduated income tax rates

## Regressive Features

- ✗ Deduction for federal income taxes paid
- ✗ No indexing

### Changes in Taxes as Shares of Income, 1989 – 2002

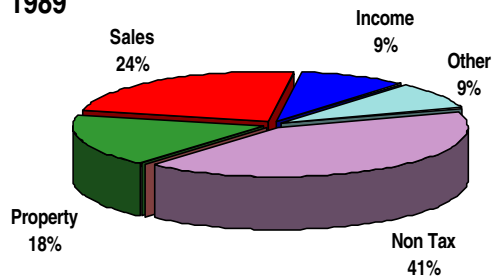


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Sales &amp; Excise</b>	-0.4%	-0.4%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%
<b>Property</b>	+0.5%	+0.4%	+0.5%	+0.2%	-0.2%	+0.2%	+0.2%
<b>Income</b>	-0.1%	-0.0%	+0.4%	+0.7%	+1.1%	+1.6%	+2.4%
<b>Federal Offset</b>	-0.0%	+0.0%	-0.1%	-0.0%	-0.1%	-0.1%	-0.4%
<b>Overall Change</b>	-0.0%	+0.0%	+0.6%	+0.6%	+0.7%	+1.6%	+2.1%

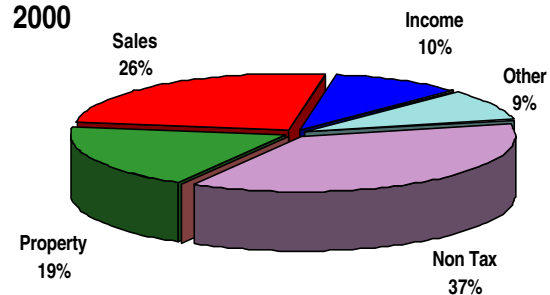
Local sales tax rates rose on average .5% over the decade, not enough to offset inflationary declines in excise taxes. As most North Dakotans pay a state income tax based on a percent of their federal income tax, progressive changes in federal rates since 1989 are reflected in state income tax rates.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census