



January 24, 2005

The Honorable Randy Schobinger
North Dakota Senate
P.O. Box 1215
Minot, ND 58702-1215

Dear Senator Schobinger:

On behalf of the more than 1,000 members of the National Taxpayers Union (NTU) in North Dakota, I write to offer our strong support for your proposed amendment to the North Dakota Constitution, which would prohibit the state from imposing taxes on corporate or individual incomes. As you are certainly aware, and as many of your colleagues should be aware, taxes on earned income can constitute the most troublesome barriers to economic growth. Because these taxes place heavy and – in North Dakota – progressively rising burdens on taxpayers and business owners as they work harder, there is no doubt that North Dakota would benefit immensely from their repeal.

It is useful to note, for example, that North Dakota's personal income tax system consists of five brackets and a top rate of 5.54 percent kicking in at an income level of \$307,050. Although individual income taxes may be moderate in comparison with those levied in some states, North Dakota's corporate tax structure, which has no federal tax deduction, ranges from 2.5 percent to 7 percent and is higher than most other states that do not allow these taxes to be deducted from federal taxes. Making the corporate income tax even more economically harmful is the fact that it kicks in at only \$30,000 of income.

Although North Dakota's economy may be the envy of many high-tax states on either coast like New York or California, North Dakota more often competes for jobs and residents with nearby states like South Dakota. Unfortunately for North Dakota, the presence of a state income tax makes it a less hospitable climate for business than South Dakota. This is borne out by the fact that according to the Tax Foundation's *2004 Business Tax Climate Index*, North Dakota finished a rather poor 39th, while South Dakota finished 1st overall.

North Dakota's business climate has real importance for efforts to maintain and expand economic opportunities in the state. A 2002 report called *Saving North Dakota* found that North Dakota's economy grew 48 percent from 1990 to 2000, while South Dakota's grew 66 percent. Personal income in North Dakota grew 56 percent during the decade, versus 73 percent in South Dakota. Also, non-farm employment in North Dakota grew 27 percent for the decade, versus 37 percent in South Dakota. As for population, census figures released this month show that South Dakota grew by about 63,000 people during the 1990s, compared with North Dakota's 6,340-person increase.

By taking the lead in reforming your state's tax policies through the elimination of North Dakota's income tax, you are doing a great service to your fellow residents. NTU and our members in North Dakota look forward to working with you to enact this important legislation.

Sincerely,

Paul J. Gessing
Director of Government Affairs