



**DEPARTMENT OF COMMERCE TESTIMONY REGARDING ECONOMIC IMPACT OF THE NEW OR
EXPANDING BUSINESS INCOME TAX EXEMPTION**

JUNE 29, 2016, 11:15 A.M.

**POLITICAL SUBDIVISION TAXATION COMMITTEE
REPRESENTATIVE JASON DOCKTER, CHAIRMAN**

JUSTIN DEVER – CO-DEPUTY COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the committee, my name is Justin Dever and I serve as a Co-Deputy Commissioner for the Department of Commerce. I will be providing economic impact information relating to the New or Expanding Business Income Tax Exemption.

Cost and Benefits

Our analysis is based upon tax information provided by the Office of the State Tax Commissioner and job and wage information provided by Job Service North Dakota.

New or Expanding Business Income Tax Exemption

Since 2006, 49 projects have been approved by the State Board of Equalization and the companies benefitted from \$7,444,382 in exempted taxes. There were a total of 42 companies that had the opportunity to benefit from exemptions with several companies having multiple qualifying projects.

According to information provided by Job Service North Dakota, 31 of the qualifying companies currently have job records. The total number of jobs is included for new business that qualified for this exemption and the net increase in jobs is included for existing business that expanded. The job totals by year the company was approved include:

Year	Current Net Jobs (2015)	Companies with Jobs
2006	319	4
2007	177	2
2008	196	2
2009	120	4
2010	453	6
2011	8	6
2012	71	2
2013	58	3
2014	23	2
2015	0	0
2016	0	0
Total	1,425	31

In order to estimate the overall impact, including the indirect and induced, we utilized a customized REMI Policy Insight™ model for North Dakota. The analysis shows the change in economic activity caused by the industry expansion. In order to show the total implications of the expansion, REMI developed a Policy Insight model with detailed employment, population, personal income, and other data specific to North Dakota. Using this model, REMI generated the regional baseline forecast and then used the information provided to develop an alternative forecast that would occur in the event of the expansion in this sector. The table below shows the difference to the economy that occurred from the projects.

The tables below show the combined effect of the currently operational New or Expanded companies have on the economy of North Dakota.

Table 1 Summary Results

Category	Units	2014	2015	2016	2017	2018
Total Employment	Individuals (Jobs)	2571	2476	2549	2574	2571
Gross Domestic Product	Millions of Current Dollars	\$294.3	\$316.7	\$358.1	\$393.5	\$422.7
Output	Millions of Current Dollars	\$498.5	\$480.2	\$508.9	\$532.4	\$553.1
Personal Income	Millions of Current Dollars	\$120.0	\$135.6	\$155.8	\$172.6	\$187.0

Table 2 Employment Effects

Category	Units	2014	2015	2016	2017	2018
Total Employment	Individuals (Jobs)	2571	2476	2549	2574	2571
Direct Employment	Individuals (Jobs)	1608	1425	1425	1425	1425
Indirect & Induced Employment	Individuals (Jobs)	963	1051	1124	1149	1146

This economic impact analysis is based upon the information for the companies that had jobs in 2014 and 2015. This does not include the impact for the previous jobs that are no longer in existence. Also, this analysis does not include the impact of any construction of facilities.

Estimating Fiscal Impact and Return on Investment

As mentioned at a previous committee meeting, the model we use to estimate economic impact (REMI Policy Insight™) does not provide us the ability to estimate the impact to state tax revenues. Without this ability, it is difficult to produce a reliable estimate for return on investment.

Conclusion

Mr. Chairman and members of the Political Subdivision Taxation Committee, thank you for allowing me to visit with you today. That concludes my testimony and I am happy to entertain any questions.

New or Expanding Business Income Tax Exemption

Category	Units	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Employment	Individuals (Jobs)	2571.4	2475.8	2549.4	2574.3	2571.4	2549.8	2522.7	2494.4	2464.9	2448.4
Private Non-Farm Employment	Individuals (Jobs)	2457.0	2302.4	2336.4	2333.7	2312.5	2278.1	2242.1	2207.8	2174.0	2154.0
Residence Adjusted Employment		2447.2	2355.1	2434.4	2466.2	2469.7	2455.9	2435.8	2410.2	2385.8	2370.8
Population		277.2	497.4	707.1	898.9	1066.8	1208.6	1318.3	1397.4	1453.5	1487.6
Labor Force		279.4	483.2	659.9	815.9	941.0	1062.8	1163.2	1206.6	1269.2	1295.8
Gross Domestic Product	Dollars	\$ 294,294,000	\$ 316,719,000	\$ 358,098,000	\$ 393,486,000	\$ 422,704,000	\$ 449,933,000	\$ 473,750,000	\$ 491,003,000	\$ 510,460,000	\$ 527,578,000
Output	Dollars	\$ 498,464,000	\$ 480,220,000	\$ 508,941,000	\$ 532,424,000	\$ 553,094,000	\$ 571,675,000	\$ 589,526,000	\$ 607,936,000	\$ 626,425,000	\$ 648,363,000
Value Added	Dollars	\$ 279,416,000	\$ 277,982,000	\$ 295,553,000	\$ 309,802,000	\$ 322,244,000	\$ 333,343,000	\$ 344,020,000	\$ 355,062,000	\$ 366,248,000	\$ 379,473,000
Personal Income	Dollars	\$ 120,041,000	\$ 135,586,000	\$ 155,801,000	\$ 172,567,000	\$ 187,047,000	\$ 198,952,000	\$ 209,864,000	\$ 220,201,000	\$ 229,694,000	\$ 240,674,000
Disposable Personal Income	Dollars	\$ 102,326,000	\$ 115,026,000	\$ 131,553,000	\$ 145,267,000	\$ 157,595,000	\$ 167,707,000	\$ 176,876,000	\$ 185,564,000	\$ 193,451,000	\$ 202,535,000
Real Disposable Personal Income	Dollars	\$ 84,638,000	\$ 90,858,000	\$ 101,299,000	\$ 109,107,000	\$ 115,468,000	\$ 120,037,000	\$ 123,869,000	\$ 127,247,000	\$ 129,963,000	\$ 133,465,000
Total Employment	Individuals (Jobs)	2571.4	2475.8	2549.4	2574.3	2571.4	2549.8	2522.7	2494.4	2464.9	2448.4
Direct Employment	Individuals (Jobs)	1608.0	1425.0	1425.0	1425.0	1425.0	1425.0	1425.0	1425.0	1425.0	1425.0
Indirect & Induced Employment	Individuals (Jobs)	963.4	1050.8	1124.4	1149.3	1146.4	1124.8	1097.7	1069.4	1039.9	1023.4
Incentive Cost		\$ 7,444,382									
Est. Sales Tax (Dis. Personal Income * Avg. Rate)		\$ 3,787,817	\$ 4,257,935	\$ 4,869,717	\$ 5,377,370	\$ 5,833,718	\$ 6,208,035	\$ 6,547,445	\$ 6,869,050	\$ 7,161,004	\$ 7,497,268
Est. Corporate Inc. Tax (Output * Avg. Rate)		\$ 1,089,015	\$ 1,049,156	\$ 1,111,904	\$ 1,163,208	\$ 1,208,367	\$ 1,248,962	\$ 1,287,962	\$ 1,328,183	\$ 1,368,576	\$ 1,416,505
Est. Personal Inc. Tax (Personal Income * Avg. Rate)		\$ 1,581,163	\$ 1,785,920	\$ 2,052,189	\$ 2,273,028	\$ 2,463,757	\$ 2,620,568	\$ 2,764,299	\$ 2,900,457	\$ 3,025,497	\$ 3,170,124
Combined		\$ 6,457,995	\$ 7,093,011	\$ 8,033,810	\$ 8,813,607	\$ 9,505,842	\$ 10,077,565	\$ 10,599,706	\$ 11,097,690	\$ 11,555,078	\$ 12,083,898
Annual Rate of Return		86.7%	95.3%	107.9%	118.4%	127.7%	135.4%	142.4%	149.1%	155.2%	162.3%