

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

4031

2001 SENATE FINANCE AND TAXATION

SCR 4031

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 4031

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 2/12/01

Tape Number	Side A	Side B	Meter #
1	x		5.1-25.2
Committee Clerk Signature <i>Lynelle M. Kraft</i>			

Minutes:

Senator Urlacher: Opened the hearing on SCR 4031, a resolution directing the Legislative Council to study the state corporate income tax laws.

Senator Ben Tollefson: Co-sponsored the bill, testified in support. Companies move where they can do better economically. We think ND's on the brink of a lot of movement toward greater economic venture. I urge a do pass. I also draw your attention to some of the leadership that have signed onto this bill.

Senator Nichols: What are the other states surrounding doing?

Senator Ben Tollefson: I don't know. I'll get that information for you.

Senator Randy Schobinger: Co-sponsored the bill, testified in support. I feel this is a wise move at this time given the constraints we have on the budget. It is my belief that eliminating the corporate income tax in the state will have very beneficial effects over time. I ask for your

favorable consideration. Chief Financial Magazine had a report out where they stated that ND's corporate income tax is the highest in the nation.

Senator Wardner: In the article, when they came to that conclusion, did they realize that it's kind of a graduated corporate tax?

Senator Randy Schobinger: They did note what states had graduated corporate taxes, but what they took is the top rate. My concern is that when these things go out to the chief financial officers in the country, that has an impact on their decision making process.

Senator Nichols: What percentage of the corporate taxes that we collect are from inside the state and out of state?

Senator Randy Schobinger: The Tax Dept. would have numbers on that.

Senator Wardner: Do you think that eliminating the corporate income tax would be even more important than tax incentives?

Senator Randy Schobinger: This is a study to look at that.

Dale Anderson: Greater ND Assoc., testified in support. North Dakota is a very high taxed state. There are only 9 states that are taxed more highly than ND. A look at the whole tax structure is needed. ND needs a balanced approach to taxation. We would urge this type of study and possibly broaden it.

Senator Kroepelin: What about farms-how do they determine what's a corporation?

Senator Randy Schobinger: I believe it would be determined on who's paying the corporate income tax right now.

Discussion followed.

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Senate Finance and Taxation Committee

Bill/Resolution Number 4031

Hearing Date 2/12/01

COMMITTEE ACTION:

Motion made by Senator Christmann for a DO PASS, Seconded by Senator Stenehjem.

Vote was 6 yeas, 0 nays, 0 absent and not voting. Bill carrier was Senator Wardner.

Date: 2/12/01  
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 4031

Senate Finance and Taxation Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Christmann Seconded By Stenehjem

Senators	Yes	No	Senators	Yes	No
Senator Urlacher-Chairman	✓				
Senator Wardner-Vice Chairman	✓				
Senator Christmann	✓				
Senator Stenehjem	✓				
Senator Kroeplin	✓				
Senator Nichols	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Wardner

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
February 12, 2001 11:42 a.m.

**Module No: SR-25-3030**  
**Carrier: Wardner**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**SCR 4031: Finance and Taxation Committee (Sen. Uriacher, Chairman) recommends DO PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SCR 4031 was placed on the Eleventh order on the calendar.**

2001 HOUSE FINANCE AND TAXATION

SCR 4031

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SCR 4031

House Finance and Taxation Committee

Conference Committee

Hearing Date March 21, 2001

Tape Number	Side A	Side B	Meter #
1		X	1,383
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

**REP. AL CARLSON, CHAIRMAN**, Opened the hearing.

**SEN. RANDY SCHOBINGER, DIST. 3, MINOT** Testified in support of the resolution, I as a sponsor of the resolution. This is a resolution to study the effectiveness of either, eliminating or restructuring, the corporate income tax of North Dakota, with the focus being on economic development. I don't believe it can be disputed that the corporate income tax is one of those issues that needs to be looked at when we talk about what can we do, to bring business and industry to North Dakota. Maybe many of you are aware that the Chief Financial Officer Magazine, November, 2000 Issue, talked about North Dakota and its corporate income tax, and stated it was the highest in the nation. Whether that is true, or imagined, it went out to most of the chief financial officers in the country, they do look at those things. All this resolution does, is ask the legislative council to study the corporate income tax and the effects of eliminating that tax.

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House Finance and Taxation Committee

Bill/Resolution Number SCR 4031

Hearing Date March 21, 2001

**REP. KELSH** Do you have any information as to how our corporate income tax compares to Montana or South Dakota or Minnesota?

**SEN. SCHOBINGER** That information is out there, I don't have it with me. I can get that for you.

**SEN. BEN TOLLEFSON, DIST. 38, MINOT** Testified in support of the resolution. This sounds like a huge step to take, if you would ever eliminate corporate income tax from the revenue stream for the state of North Dakota, it amounts to about fifty million dollars per year. If you do look around at economic development, it is a big part for the state of North Dakota. If you look at South Dakota, they have no corporate income tax. They tax in other ways. Montana has a flat rate tax, and Minnesota has a higher flat rate tax. We are grasping at straws to make North Dakota a better place to live and do business, and to keep the young people here. We feel that studying this issue, would be a worthwhile interim project.

**DALE ANDERSON, GREATER NORTH DAKOTA ASSOCIATION,** Testified in support of the resolution. We have a policy of an important tax balance of North Dakota. The tax balance involves the property tax, sales tax, individual income tax and corporate income tax. We feel that package is essential to be in their proper balance for our state to be profitable and successful. We need to look at that balance, and this is probably the appropriate time to look at it. We are involved in a new economy initiative, that whole process will look at the kinds of businesses that are here today. The time is appropriate.

**REP. KROEBER** Why do you think that in 1998, corporate income taxes were over sixty five million dollars, and now they are about forty five million dollars?

**DALE ANDERSON** I don't know the answer to that, I suspect it is the state of the economy. I have not looked at the numbers and don't have a firm analysis of why the change has taken place.

**BILL BUTCHER, STATE DIRECTOR OF NFIB**, Testified in support of the resolution. We represent approximately three thousand small business owners in North Dakota and many of them are affected by corporate income tax. On behalf of those business owners that I represent, I can't think of anything that would encourage investment or expansion of business more, then this study of tax relief or elimination for corporations. Related to personal experience in that regard. He related to the fact that South Dakota did not have a corporate income tax, which is really a selling point in moving a business there.

**REP. CARLSON** Stated that South Dakota did not have a corporate income tax, they just extract it from people in a different method, you need to understand the total pie in how they derive that money. It always comes from somewhere.

**REP. HERBEL** Along those same lines of thought, if we extract one hundred million dollars out of the corporate income tax over the next biennium, or whatever the biennium may be, that is also going to have to be paid by someone, and the way things are going, it will be private property tax.

**REP. LLOYD** Asked if there is a business privilege tax?

**MARY LOFTSGARD, SUPERVISOR OF CORPORATE INCOME TAX, STATE TAX DEPARTMENT**, Answered the question, stating, there was a business privilege tax at one time, but it was repealed.

**REP. KROEBER** Stated that he was looking in the tax book, and we do have a little quirk in this law as we do in our income tax law, in that, we do allow the corporations to deduct their

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House Finance and Taxation Committee

Bill/Resolution Number SCR 4031

Hearing Date March 21, 2001

federal income tax liability before calculating their state tax liability. Which results in making our charts look abnormal again, kind of like our fourteen percent income tax. That should be kept in consideration when we talk about the level of tax.

**REP. CARLSON** That is a valid point.

With no further testimony, the hearing was closed.

#### **COMMITTEE ACTION**

**REP. DROYDAL** Made a motion for **DO PASS AND BE PLACED ON THE CONSENT**

**CALENDAR**

**REP. GROSZ** Second the motion. **MOTION CARRIED BY VOICE VOTE AND WAS**

**PLACED ON THE CONSENT CALENDAR.**

**REP. GROSZ** Was given the floor assignment.

**CO**

**CO**

**NE**

**FT**

**NEXT FIGURE**

Date: 3-21-01  
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SCR 4031

House FINANCE & TAXATION Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Rep. Drovdal Seconded By Rep. Grosz

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	A	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	A	
CLARK, BYRON	✓		SCHMIDT, ARLO	✓	
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY	✓	
KELSH, SCOT	✓				
KROEBER, JOE	✓				
LLOYD, EDWARD	✓				

Total (Yes) 13 No 0

Absent 2

Floor Assignment Rep. Grosz

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
**March 21, 2001 11:33 a.m.**

**Module No: HR-49-6266**  
**Carrier: Grosz**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**SCR 4031: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends DO PASS and BE PLACED ON THE CONSENT CALENDAR (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SCR 4031 was placed on the Tenth order on the calendar.**

2001 TESTIMONY

SCR 4031

## RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2001 -- as of January 1, 2001)

State	Tax Rates	Tax Brackets	# of Brackets	Bank Tax Rates	Federal Tax Deductible
ALABAMA	5.0	----Flat Rate----	1	6.0	*
ALASKA	1.0 - 9.4	10,000 90,000	10	1.0 - 9.4	
ARIZONA	6.968	----Flat Rate----	1	6.968	
ARKANSAS	1.0 - 6.5	3,000 100,000	6	1.0 - 6.5	
CALIFORNIA	8.84 (c)	----Flat Rate----	1	10.84 (c)	
COLORADO	4.63	----Flat Rate----	1	4.63	
CONNECTICUT	7.5 (d)	----Flat Rate----	1	7.5 (d)	
DELAWARE	8.7	----Flat Rate----	1	8.7-1.7 (e)	
FLORIDA	5.5 (f)	----Flat Rate----	1	5.5 (f)	
GEORGIA	6.0	----Flat Rate----	1	6.0	
HAWAII	4.4 - 6.4 (g)	25,000 100,000	3	7.92 (g)	
IDAHO	8.0 (h)	----Flat Rate----	1	8.0 (h)	
ILLINOIS	7.3 (i)	----Flat Rate----	1	7.3 (i)	
INDIANA	7.9 (j)	----Flat Rate----	1	8.5	
IOWA	6.0 - 12.0	25,000 250,000	4	5.0	* (k)
KANSAS	4.0 (l)	----Flat Rate----	1	2.25 (l)	
KENTUCKY	4.0 - 8.25	25,000 250,000	5	--- (a)	
LOUISIANA	4.0 - 8.0	25,000 200,000	5	--- (a)	*
MAINE	3.5 - 8.93 (m)	25,000 250,000	4	1.0	
MARYLAND	7.0	----Flat Rate----	1	7.0	
MASSACHUSETTS	9.5 (n)	----Flat Rate----	1	10.5 (n)	
MINNESOTA	9.8 (o)	----Flat Rate----	1	9.8 (o)	
MISSISSIPPI	3.0 - 5.0	5,000 10,000	3	3.0 - 5.0	
MISSOURI	6.25	----Flat Rate----	1	7.0	* (k)
MONTANA	6.75 (p)	----Flat Rate----	1	6.75 (p)	
NEBRASKA	5.58 - 7.81	50,000	2	--- (a)	
NEW HAMPSHIRE	8.0 (q)	----Flat Rate----	1	8.0 (q)	
NEW JERSEY	9.0 (r)	----Flat Rate----	1	9 (r)	
NEW MEXICO	4.8 - 7.6	500,000 1 million	3	4.8 - 7.6	
NEW YORK	8.0 (s)	----Flat Rate----	1	8.0 (s)	
NORTH CAROLINA	6.9 (t)	----Flat Rate----	1	6.9 (t)	
NORTH DAKOTA	3.0 - 10.5	3,000 50,000	6	7 (b)	*
OHIO	5.1 - 8.5 (u)	50,000	2	--- (u)	
OKLAHOMA	6.0	----Flat Rate----	1	6.0	
OREGON	6.6 (b)	----Flat Rate----	1	6.6 (b)	
PENNSYLVANIA	9.99	----Flat Rate----	1	--- (a)	
RHODE ISLAND	9.0 (b)	----Flat Rate----	1	9.0 (v)	
SOUTH CAROLINA	5.0	----Flat Rate----	1	4.5 (w)	
SOUTH DAKOTA	---			6.0-1.0% (b)	
TENNESSEE	6.0	----Flat Rate----	1	6.0	
UTAH	5.0 (b)	----Flat Rate----		5.0 (b)	
VERMONT	7.0 - 9.75 (b)	10,000 250,000	4	7.0 - 9.75 (b)	
VIRGINIA	6.0	----Flat Rate----	1	6.0 (x)	
WEST VIRGINIA	9.0	----Flat Rate----	1	9.0	
WISCONSIN	7.9	----Flat Rate----	1	7.9	
DIST. OF COLUMBIA	9.975 (y)	----Flat Rate----		9.975 (y)	

Source: Compiled by FTA from various sources

Note: Michigan imposes a single business tax (sometimes described as a business activities tax or value added tax) of 2.0% on the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalties paid and other items. Similarly, Texas imposes a franchise tax of 4.5% of earned surplus. Nevada, Washington, and Wyoming do not

have state corporate income taxes.

- (a) Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares.
- (b) Minimum tax is \$50 in Arizona, \$50 in North Dakota (banks), \$10 in Oregon, \$250 in Rhode Island, \$500 per location in South Dakota (banks), \$100 in Utah, \$250 in Vermont.
- (c) Minimum tax is \$800. The tax rate on S-Corporations is 1.5% (3.5% for banks).
- (d) Or 3.1 mills per dollar of capital stock and surplus (maximum tax \$1 million) or \$250.
- (e) The marginal rate decreases over 4 brackets ranging from \$20 to \$650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.
- (f) Or 3.3% Alternative Minimum Tax. An exemption of \$5,000 is allowed.
- (g) Capital gains are taxed at 4%. There is also an alternative tax of 0.5% of gross annual sales.
- (h) Minimum tax is \$20. An additional tax of \$10 is imposed on each return.
- (i) Includes a 2.5% personal property replacement tax.
- (j) Consists of 3.4% on income from sources within the state plus a 4.5% supplemental income tax.
- (k) Fifty percent of the federal income tax is deductible.
- (l) Plus a surtax of 3.35% (2.125% for banks) taxable income in excess of \$50,000 (\$25,000).
- (m) Or a 27% tax on Federal Alternative Minimum Taxable Income.
- (n) Rate includes a 14% surtax, as does the following: an additional tax of \$7.00 per \$1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of \$456.
- (o) Plus a 5.8% tax on any Alternative Minimum Taxable Income over the base tax.
- (p) A 7% tax on taxpayers using water's edge combination. Minimum tax is \$50.
- (q) Plus a 0.50 percent tax on the enterprise base (total compensation, interest and dividends paid). Business profits tax imposed on both corporations and unincorporated associations.
- (r) The rate reported in the table is the business franchise tax rate. The minimum tax is \$200. Corporations not subject to the franchise tax are subject to a 7.25% income tax. Banks other than savings institutions are subject to the franchise tax. S-Corporation are subject to an entity level tax of 2.0%. Corporations with net income under \$100,000 are taxed at 7.5%. For S-Corporation having \$100,000 or less in net income for a 12-month privilege period, the rates are 1.13% and 0.5%, respectively. Regulated investment companies are subject to a flat tax of \$250.
- (s) Or 1.78 (0.1 for banks) mills per dollar of capital (up to \$350,000; or 3.0% of the minimum taxable income; or a minimum of \$1,500 to \$100 depending on payroll size (\$250 plus 2.5% surtax for banks); if any of these is greater than the tax computed on net income. An addition tax of 0.9 mills per dollar of subsidiary capital is imposed on corporations. Small corporations with income under \$200,000 pay a 7.5% tax on all income.
- (t) Financial institutions are also subject to a tax equal to \$30 per one million in assets.
- (u) Or 4.0 mills time the value of the taxpayer's issued and outstanding share of stock with a maximum payment of \$150,000. An additional litter tax is imposed equal to 0.11% on the first \$50,000 of taxable income, 0.22% on income over \$50,000; or 0.14 mills on net worth.
- (v) For banks, the alternative tax is \$2.50 per \$10,000 of capital stock (\$100 minimum).
- (w) Savings and Loans are taxed at a 6% rate.
- (x) State and national banks subject to the state's franchise tax on net capital is exempt from the income tax.
- (y) Minimum tax is \$100. Includes surtax.