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ROLL NUMBER

DESCRIPTION

2374

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Deanna Halko
Operator's Signature

10/22/03
Date

2003 SENATE FINANCE AND TAXATION

SB 2374

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Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 5, 2003

| Tape Number | Side A | Side B | Meter # |
|---|--------|--------|-----------|
| 2 | X | | 3,160-end |
| 2 | | X | 1-1387 |
| Committee Clerk Signature <i>Mary Kuylenstierna</i> | | | |

Minutes:

Senator Urlacher opened the hearing on SB2374. All committee members are present. This bill relates to the definition of financial institutions for financial institution tax purposes.

Senator Wardner (mtr #3168) - Presented the bill along with the changes is proposes. Attempts to change to top tax rate and remain revenue neutral to the state.

Lt. Governor Jack Dalrymple (mtr #3590) - Testified in support of SB2374. Reviewed the current tax structure and the proposed changes it would make. Bill is backed by the Governor and explained why.

Mark Johnson, Executive Director, Association of Counties (mtr #4350) - Testified in support of SB2374. Feel the benefits outweigh the shortcomings.

Senator Seymour (mtr #4700) - Question about the distribution of the income of banks for the past five years.

Mr. Johnson - Has not seen that distribution list.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2374

Hearing Date February 5, 2003

Senator Nichols (mtr #4776) - Question about the differences within certain counties under this change.

Mr. Johnson (mtr #4812) - Anticipate no significant changes at this time.

Rick Clayburgh, State Tax Commissioner (mtr #4901) - Testified in support of SB2374.

Reviewed the need for this bill for economic development reasons.

Senator Nichols (mtr #5331) - Regarding the Waters Edge option. Is available elsewhere in the tax code.

Mr. Clayburgh (mtr #5369) - Gave information on the availability of Waters Edge for tax filers.

Donal Forsberg, Executive VP, ICBND (mtr #5443) - Testified in opposition to SB2374.

Written testimony is attached. Referenced handout attached to testimony. Not opposed to primary intent.

Jim Schlosser, ND Bankers Association (mtr #755) - Are prime supporters of economic development the state, expressed concerns about this bill. Written testimony is attached.

Senator Urlacher (mtr #1387) - Closed the hearing on SB2374.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 5, 2003

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|-----------|
| 3 | X | | 2773-3785 |
| | | | |
| | | | |

Committee Clerk Signature *[Handwritten Signature]*

Minutes:

Senator Urlacher opened the discussion on SB2374. All committee members are present. This bill relates to the definition of financial institutions for financial institutions tax purposes.

Want to address due to fiscal note.

Senator Wardner (mtr #2944) - Has sympathy for banks. Is worth keeping alive.

Senator Urlacher (mtr #3055) - Told the bankers we would not act at this time.

Senator Tollefson (mtr #3142) - We defeated a bill similar on the floor.

Senator Wardner (mtr #3172) - That bill had a negative fiscal effect. This bill is neutral.

Senator Tollefson - This bill is neutral because the banks are picking it up.

Senator Urlacher (mtr #3252) - We won't open the hearing again.

Senator Nichols (mtr #3389) - Would like more information on this bill.

Senator Tollefson (mtr #3596) - Perception. We are selling perception at the expense of the banks.

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10/22/03

Date

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2374

Hearing Date February 5, 2003

Senator Wardner (mtr #3688) - Explained how he felt bill addresses large banks and large corporations.

Senator Tollefson - Would also like to delay hearing.

Senator Urlacher closed the discussion on SB2374.

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10/22/03
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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 10, 2003

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|---------|
| 2 | X | | 1-5650 |
| | | | |
| | | | |

Committee Clerk Signature *Mary Kay Larkley*

Minutes: Senator Urlacher appointed a sub-committee to address SB2374. The bill relates to the definition of financial institutions for the purpose of financial institution tax. The members of the subcommittee are; Senators Wardner, Tollefson and Nichols

Let the record show that Senator Wardner, Senator Tollefson, and Senator Nichols are present.

Senator Wardner (mtr #21) - Called the meeting to order. Purpose is to solve differences with

this issue. Invited participants to sit at the table with the Senators. Those present, Ron

Roschenberger, Governors Office, Pam Sharp, OMB, Dee Wald, Tax Department, ? , Tax

Department, Kathy Strombeck, Tax Department, Mary Loftsgaard, Tax Department, Marilyn Foss,

ND Bankers Assn, Don Forsberg, ICBND. Held an open forum discussion on this bill.

Several negatives pointed out.

Mr. Forsberg - Gave testimony regarding why this is negative to banks. Issue with selling

perception about the states high tax rate. Also stated that banks are in favor of economic

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2374

Hearing Date February 10, 2003

development. Feels trying to solve a survey problem with legislation. Spoke to his experience as a corporate controller and the numbers/facts used to make decisions.

Also, economic impact, this is taking dollars from the communities.

Senator Tollefson (mtr #1152) - Question regarding the tax status of banks and the decreased competitive position.

Senator Nichols (mtr #1210) - Talked about the tax differences of C corporations and S corporations.

Marily Foss (mtr #1310) - Gave detailed testimony on how this will effect the banks that are C corporations. Concerned about the competitive disadvantage. Spoke about the effect this bill would have on attaching financial institution processing centers.

Senator Wardner (mtr #1630) - Referenced booklet he has that shows how funds are distributed to the counties.

Senator Nichols (mtr #1681) - Is there a comparison to Minnesota banks.

Ms. Foss - Does not have that information.

Senator Wardner (mtr #1731) - Question for Ms. Foss on what other institutions beside Credit Unions.

Ms. Foss (mtr #1755) - Listed different corporations that compete different in areas of banking and how that effects the financial institutions that do pay taxes.

Mr. Forsberg (mtr #1853) - Feels that Farm Credit Services and some Credit Unions in ND are larger than many banks.

Representative from Tax Department (mtr #2259) - Gave detailed explanations on how federal taxes and the deductions work together for banks.

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Senate Finance and Taxation Committee
Bill/Resolution Number SB2375A
Hearing Date February 10, 2003

Senator Wardner (mtr #2339) - Can the brackets be manipulated?

Kathy Strombeck, Tax Department (mtr #2377) - The level given in the bill is where rates are equal. Will always create winners and losers.

Ms. Foss - Observation, Type of income banks have is very different from other corporations.

Senator Tollefson (mtr #2810) - Original intent of bill to fix perception. How can we change to correct that perception.

Mr. Forsberg (mtr 2866) - Gave detailed explanation on tax rates, brackets, and percentages involved. Feels this creates a disproportionate amount of losers in the banking industry.

Tax Department representatives gave additional detailed tax testimony, and how it effects bank subdivisions. Also went over qualifications and definitions.

Senator Tollefson (mtr #3646) - Given the intent of the bill. What adjustment would accomplish that intent.

Senator Wardner (mtr #3763) - What banks have processing centers.

Ms. Foss - Gave a list of banks and the processing centers they currently have in ND.

Senator Wardner - Asked again, how we can get closer to the middle.

Mr. Forsberg (mtr #4100) - Does the problem need to be solved? Personal opinion, get beyond 1st glance. It comes down to the tax laws. What are we trying to fix. Also talked of redistributing the funds from local communities.

Kathy Strombeck - Gave info on incorrect information that was gotten on web pages.

Much general discussion from everyone at the table about the dollars being taken from local communities. Tax Department representatives gave information on tax law, changes in the law, current rates and new corporate rates that this bill would allow.

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Senate Finance and Taxation Committee
Bill/Resolution Number SB2374
Hearing Date February 10, 2003

Senator Wardner - The subcommittee will meet and present a recommendation to the Finance and Taxation Committee.

Adjourned the subcommittee.

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Deanna D. Ballito
Operator's Signature

10/22/03

Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 11, 2003

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|---------|
| 3 | X | | 0-589 |
| | | | |
| | | | |

Committee Clerk Signature *[Handwritten Signature]*

Minutes: Subcommittee formed for SB2374. Record shows that the Chairman is Senator Wardner, is present. Senators Tollefson and Nichols also present.

Senator Wardner called the meeting to order.

Ron Rauschenberger, Governors Office (mtr #30) - Reviewed the proposed amendment to SB2374. Gave detailed testimony on how this would change the tax rates and brackets for corporations for the State of North Dakota. Referenced handout (exhibit A).

Senator Tollefson (mtr #236) - Is the Governors Office happy with this amendment?

Mr. Rauschenberger (mtr #253) - We are behind this amendment.

Senator Nichols (mtr #276) - Question regarding the gain from repeal of the Waters Edge provision.

Don Forsberg, ICBND (mtr #352) - Amendment is positive. Would like to have time to study the amendment.

Senator Wardner (mtr #411) - Will get amendments to you as soon as possible.

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Date

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Senate Finance and Taxation Committee

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Hearing Date February 11, 2003

Mr. Forsberg (mtr #424) - Additional concern, trying to fix a perception.

Marilyn Foss, ND Bankers Assoc - Also concerned with trying to fix perception and will get amendment to member banks.

Senator Wardner (mtr #) - Recessed the hearing on SB2374.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 12, 2003

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|-----------|
| 2 | X | | 2198-3231 |
| | | | |
| | | | |

Committee Clerk Signature *Mary Kay Hickey*

Minutes:

Senator Wardner gave reviewed the amendments that the subcommittee had found to be somewhat agreeable on SB2374. Had indicated to the banks that the committee would not act on the bill until Monday February 17th, so that they would have time to review the amendments.

Senator Seymour (mtr #2500) - Does it effect all banks?

Senator Wardner (mtr #2543) - Does not effect all banks the same. Effects other large corporations also.

Senator Nichols (mtr #3070) - Question the amount of impact that will be felt.

Senator Wardner (mtr #) - Not sure of the impact, the banks will let us know on Monday.

Senator Nichols (mtr #3130) - Question about the banks being notified of the changes.

Senator Wardner - Verified that the banks are being notified.

Senator Urlacher (mtr #) - Closed the discussion on SB2374.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2374

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 17, 2003

| Tape Number | Side A | Side B | Meter # |
|--|--------|--------|----------|
| 1 | X | | 770-5760 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Maureen [unclear]</i> | | | |

Minutes:

Senator Urlacher opened the discussion on SB2374. All committee members are present. This bill relates to the definition of financial institutions for tax purposes.

Senator Wardner (mtr #900) - Presented the proposed amendment to the bill along with the recommendation of the subcommittee. Also referenced the handout on the analysis of bank tax changes (exhibit A) and the forecasted financial impact for each county.

Senator Urlacher (mtr #1521) - Question regarding windfall amount to each county.

Senator Wardner (mtr #1577) - Reviewed analysis for clarification.

Senator Seymour (mtr #1622) - Requested the definition of a financial loser in this bill.

Senator Wardner - Compared what banks currently receive for a deduction vs. what they will receive under the new legislation.

Mark Johnson, Association of Counties (mtr #1697) - The formula in the analysis is based on historical bank activity. Can be further changed to reduce the lose. Also has an amendment in

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Deanna [unclear]
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10/22/03

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Page 2
Senate Finance and Taxation Committee
Bill/Resolution Number SB2374
Hearing Date February 17, 2003

addition to the amendment proposed by Senator Wardner. Gave further explanation of how this bill can be improved.

Senator Nichols (mtr #1890) - Question about the amount the will be allocated to the counties.

Mr. Johnson (mtr #1949) - Senator Nichols is correct. Expanded on the allocation to the counties, the timing and so forth.

Senator Nichols (mtr #1978) - Question regarding the amount over the past biennium's.

Mr. Johnson (mtr #1997) - Gave figures on allocation in response to the question.

Further back and forth discussion between Senator Nichols and Mr. Johnson on the allocations, the timing, the fluctuation and the possibilities of a cap.

Senator Wardner (mtr #2115) - Question about the impact of the bank earnings lower at this time.

Mr. Johnson - Would have to verify.

Senator Wardner (mtr #2165) - Question for Dennis Boyd.

Dennis Boyd, MDU Resources (mtr #2192) - Answered Senator Wardner regarding tax brackets, and the repeal of the federal tax deduction. Also, MDU may want to take advantage of the Waters Edge filing status in the future.

Senator Wardner (mtr #2362) - Question for Don Forsberg. What are banks taxed on that corporations are not.

Don Forsberg, ICBND (mtr #2383) - Went over the areas that differ in regards to tax deductions between banks and corporations.

Senator Wardner (mtr #2665) - Asked for Mr. Forsberg feelings about the amendment.

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Dennis Boyd
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Senate Finance and Taxation Committee

Bill/Resolution Number SB2374

Hearing Date February 17, 2003

Mr. Forsberg (mtr #2700) - Favors the amended version. Would be a larger impact on C corporation banks.

Senator Tollefson (mtr #3040) moves to amend SB2374 with .0101. 2nd by Senator Wardner.

Voice vote

6 yea, 0 nay. Bill is amended with .0101.

More discussion by all Senators followed on the analysis provided by the Association of Counties and their proposed amendment.

Mr. Johnson (mtr #3287) - Clarified his proposed amendment

Senator Nichols (mtr #3338) - What would be the biggest positive change?

Mr. Johnson - Provided an answer to Senator Nichols question along with further clarification on his proposed amendment.

Senator Nichols (mtr #3560) - Move to add proposed amendment to SB2374. 2nd by Senator Wardner. Voice vote 6 yea, 0 nay. Bill is amended.

Senator Urlacher - Bill is before us as amended with both amendments.

Senator Wardner (mtr #3800) - Had visited with banks regarding the 10.5% perceived tax rate. Concerns about the bill were that banks are on an unfair playing field with competitors. Gave further information regarding banks as citizens in the community and the benefits the community gets from having a bank in the community. Questions if banks are being treated right.

Senator Tollefson (mtr #4421) - We are trying to fix a perception.

Senator Wardner (mtr #4633) - Referenced earlier bill and the fiscal impact the state would have taken.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2374

Hearing Date February 17, 2003

Senator Nichols (mtr #4730) - Concept is good, however, feels businesses would do further research on the state if they are serious about locating in North Dakota.

Senator Syverson (mtr #4882) - Unfortunate that everyone can not be treated equally. This may not be a permanent change. Is thankful for the great relationships banks have with their communities.

Senator Urlacher (mtr #5135) - Is a problem getting fairness in a bill. Hope a corporation would look deeper into the tax structure when looking at ND.

Senator Wardner (mtr #5225) - Additional comments about the bill and the impact it will have on banks.

Senator Tollefson (mtr #5402) - More comments on the inequities in the bill.

Senator Tollefson moves a Do Pass as Amended. 2nd by Senator Syverson. Roll call vote 5 yea, 1 nay, 0 nay. Carrier is Senator Wardner.

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FISCAL NOTE
 Requested by Legislative Council
 02/19/2003

Amendment to: SB 2374

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

| | 2001-2003 Biennium | | 2003-2005 Biennium | | 2005-2007 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

| 2001-2003 Biennium | | | 2003-2005 Biennium | | | 2005-2007 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | \$7,000,000 | | | | | |

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

Engrossed SB 2374 repeals the federal income tax deduction for corporations and financial institutions, repeals the water's edge filing method for corporations, and imposes lower rates ranging from 2.6% to 7.2% of taxable income for corporations and 2.5% to 5.9% for financial institutions. These provisions are estimated to be revenue neutral to the state general fund. The counties will receive a one-time speed up of \$7 million from the counties share of the financial institutions tax. Under current law, the 2003 liability would be split; 2/7's of the tax would be due April 15, 2004 and the 5/7's county share of the 2003 tax would be due in January 2005. Engrossed SB 2374 bill changes the payment schedule beginning with tax year 2003 making the entire financial institutions tax due in early 2004.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

| | | | |
|----------------------|----------------------|-----------------------|------------|
| Name: | Kathryn L. Strombeck | Agency: | Tax Dept. |
| Phone Number: | 328-3402 | Date Prepared: | 02/20/2003 |

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Deanna Waller 10/22/03
 Operator's Signature Date

FISCAL NOTE
 Requested by Legislative Council
 01/28/2003

Bill/Resolution No.: SB 2374

1A. State fiscal effect: Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

| | 2001-2003 Biennium | | 2003-2005 Biennium | | 2005-2007 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

1B. County, city, and school district fiscal effect: Identify the fiscal effect on the appropriate political subdivision.

| 2001-2003 Biennium | | | 2003-2005 Biennium | | | 2005-2007 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | \$7,000,000 | | | | | |

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

SB 2374 repeals the federal income tax deduction for corporations and financial institutions, repeals the water's edge filing method for corporations, and imposes lower rates ranging from 2.6% to 6.9% of taxable income for both corporations and financial institutions. These provisions are estimated to be revenue neutral to the state general fund. The counties will receive a one-time speed up of \$7 million from the counties share of the financial institutions tax. Under current law, the 2003 liability would be split; 2/7's of the tax would be due April 15, 2004 and the 5/7's county share of the 2003 tax would be due in January 2005. SB 2374 bill changes the payment schedule beginning with tax year 2003 making the entire financial institutions tax due in early 2004.

3. State fiscal effect detail: For information shown under state fiscal effect in 1A, please:

A. Revenues: Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. Expenditures: Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. Appropriations: Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

| | | | |
|----------------------|----------------------|-----------------------|------------|
| Name: | Kathryn L. Strombeck | Agency: | Tax Dept. |
| Phone Number: | 328-3402 | Date Prepared: | 02/04/2003 |

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 Operator's Signature Date

38361.0101
Title.

Prepared by the Legislative Council staff for
the Office of State Tax Commissioner for
Senator Wardner
February 11, 2003

PROPOSED AMENDMENTS TO SENATE BILL NO. 2374

Page 5, line 11, replace "six" with "five"

Page 5, line 14, remove "and one tenths"

Page 5, line 16, replace "six" with "five"

Page 4, line 17, remove "and not in excess of thirty"

Page 5, line 18, remove "thousand dollars, replace "six" with "five" and replace "four-tenths"
with "nine-tenths"

Page 5, remove lines 19 and 20

Page 11, line 17, replace "six" with "seven" and replace "nine-tenths" with "two tenths"

Renumber accordingly

38361.0102
Title 1200

Adopted by the Finance and Taxation
Committee
February 17, 2003

JEB
2-17-03

PROPOSED AMENDMENTS TO SENATE BILL NO. 2374

Page 5, line 11, replace "six" with "five"

Page 5, line 14, remove "and one tenths"

Page 5, line 16, replace "six" with "five"

Page 5, line 17, remove "and not in excess of thirty"

Page 5, line 18, remove "thousand dollars.", replace "six" with "five", and replace "four-tenths" with "nine-tenths"

Page 5, remove lines 19 and 20

Page 7, line 29, after "on" insert "the following formula. Seventy-five percent of the total must be distributed based on the relative amount that each county received in financial institutions tax revenue in calendar year 2000 and twenty-five percent must be distributed based on"

Page 11, line 17, replace "six" with "seven" and replace "nine-tenths" with "two-tenths"

Renumber accordingly

Page No. 1

38361.0102

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10/22/03
Date

REPORT OF STANDING COMMITTEE (410)
February 18, 2003 8:16 a.m.

Module No: SR-31-3031
Carrier: Wardner
Insert LC: 38361.0102 Title: .0200

REPORT OF STANDING COMMITTEE

SB 2374: Finance and Taxation Committee (Sen. Uriacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2374 was placed on the Sixth order on the calendar.

Page 5, line 11, replace "six" with "five"

Page 5, line 14, remove "and one tenths"

Page 5, line 16, replace "six" with "five"

Page 5, line 17, remove "and not in excess of thirty"

Page 5, line 18, remove "thousand dollars.", replace "six" with "five", and replace "four-tenths" with "nine-tenths"

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Page 11, line 17, replace "six" with "seven" and replace "nine-tenths" with "two-tenths"

Renumber accordingly

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10/22/03
Date

2003 TESTIMONY
SB 2374

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EXHIBIT A
2.11.03

Proposed Amendments to SB 2374

Corps:
Repeal Federal Tax Deduction (FTD)
Reduces top rate to 7.2%
Keeps brackets for low income taxpayers (reduce from 6 to 5)
Repeals Water's Edge Filing Method effective 2003 returns

Financial Institutions:
Repeals Federal Tax Deduction (FTD)
Imposes rates ranging from 2.5% to 5.9%
Appropriates \$7 million to counties, rest to state general fund
(For 2002, counties portion was \$6.1 million)

Corp Rates with Repeal of FTD:

| | |
|----------------------|-------|
| Taxable Income: | |
| Under \$3,000 | 2.60% |
| \$3,000 to \$8,000 | 4.10% |
| \$8,000 to \$20,000 | 5.60% |
| \$20,000 to \$30,000 | 6.40% |
| Over \$30,000 | 7.20% |

Financial Institutions Rates with Repeal of FTD:

| | |
|---------------------|-------|
| Taxable Income: | |
| Under \$3,000 | 2.50% |
| \$3,000 to \$8,000 | 4.00% |
| \$8,000 to \$20,000 | 5.50% |
| Over \$20,000 | 5.90% |

Estimate of Annual Fiscal Impact:

| | |
|---|----------------|
| Repeal FTD and lower rates for corps | \$ (1,371,000) |
| Repeal Water's Edge provisions for corps | 500,000 |
| Repeal FTD and lower rates for financials | 994,000 |
| Windfall to counties * | (143,000) |
| Estimated Annual Fiscal Impact - Combined | \$ (20,000) |

* Of the add'l \$.994 paid by banks, only \$.851 is over the official cost for the state general fund share of FIT. The rest is a small windfall to counties

govcorp7.xls
2/11/03

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Deanna Waller 10/22/03
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Exhibit A

Analysis of Bank Tax Changes - SB2374

| | \$6.152 Million Actual Current Formula | 7,000,000 25% based on Population | 7,000,000 75% based on Current Formula | Total Proposed Allocation | Positively Impacted | Negatively Impacted |
|---------------|--|--|---|---------------------------------|------------------------|------------------------|
| Adams | 18,261 | 7,066 | 15,583 | 22,049 | 4,388 | |
| Barnes | 136,077 | 32,087 | 116,123 | 148,210 | 12,132 | |
| Benson | 24,108 | 18,977 | 20,572 | 39,549 | 15,442 | |
| Billings | 1,907 | 2,420 | 1,627 | 4,047 | 2,140 | |
| Bottineau | 115,155 | 19,481 | 96,269 | 117,750 | 2,595 | |
| Bowman | 69,870 | 8,834 | 59,454 | 68,288 | | (1,382) |
| Burke | 29,650 | 6,109 | 25,302 | 31,411 | 1,762 | |
| Burlingame | 373,678 | 189,159 | 318,881 | 508,041 | 134,363 | |
| Cass | 1,185,129 | 335,552 | 1,011,341 | 1,346,893 | 161,764 | |
| Cavalier | 99,495 | 13,165 | 84,905 | 98,069 | | (1,425) |
| Dickey | 57,183 | 15,688 | 48,797 | 64,485 | 7,303 | |
| Divide | 51,960 | 6,221 | 44,341 | 50,562 | | (1,398) |
| Dunn | 26,745 | 9,810 | 22,823 | 32,633 | 5,888 | |
| Eddy | 10,515 | 7,513 | 8,973 | 16,486 | 5,971 | |
| Emmons | 73,933 | 11,802 | 63,091 | 74,893 | 960 | |
| Foster | 59,816 | 10,243 | 51,045 | 61,288 | 1,472 | |
| Golden Valley | 32,947 | 5,243 | 28,115 | 33,358 | 412 | |
| Grand Forks | 535,164 | 180,148 | 456,887 | 636,835 | 101,671 | |
| Grant | 24,075 | 7,742 | 20,545 | 28,286 | 4,211 | |
| Griggs | 56,888 | 7,505 | 48,545 | 56,049 | | (837) |
| Hettinger | 36,131 | 7,398 | 30,833 | 38,231 | 2,100 | |
| Kidder | 25,957 | 7,502 | 22,151 | 29,653 | 3,698 | |
| LaMoure | 48,624 | 12,810 | 41,494 | 54,304 | 5,680 | |
| Logan | 48,995 | 6,289 | 41,810 | 48,099 | | (895) |
| McHenry | 33,433 | 16,315 | 28,530 | 44,845 | 11,412 | |
| McIntosh | 73,227 | 9,238 | 62,489 | 71,727 | | (1,500) |
| McKenzie | 72,754 | 15,633 | 62,085 | 77,719 | 4,965 | |
| McLean | 83,256 | 25,373 | 71,047 | 96,420 | 13,164 | |
| Miner | 83,291 | 23,555 | 71,077 | 94,632 | 11,341 | |
| Morton | 131,435 | 68,951 | 112,161 | 181,112 | 49,677 | |
| Mountrail | 110,589 | 18,070 | 94,372 | 112,441 | 1,853 | |
| Nelson | 65,195 | 10,123 | 55,634 | 65,758 | 563 | |
| Oliver | 11,413 | 5,627 | 9,739 | 15,367 | 3,954 | |
| Pembina | 133,025 | 23,394 | 113,519 | 136,913 | 3,887 | |
| Pierce | 35,994 | 12,739 | 56,317 | 69,056 | 3,082 | |
| Ramsay | 157,624 | 32,880 | 134,510 | 167,390 | 9,766 | |
| Ransom | 82,788 | 16,050 | 70,648 | 86,698 | 3,910 | |
| Renville | 22,057 | 7,112 | 18,822 | 25,935 | 3,878 | |
| Richland | 170,618 | 49,045 | 145,598 | 194,643 | 24,025 | |
| Rolette | 61,631 | 37,262 | 52,593 | 89,855 | 28,224 | |
| Sargent | 80,728 | 11,897 | 68,890 | 80,788 | 59 | |
| Sheridan | 17,307 | 4,660 | 14,769 | 19,429 | 2,122 | |
| Sioux | 330 | 11,020 | 281 | 11,301 | 10,972 | |
| Slope | - | 2,090 | - | 2,090 | 2,090 | |
| Stark | 280,529 | 61,683 | 222,325 | 284,008 | 23,479 | |
| Steele | 35,830 | 6,153 | 30,576 | 36,729 | 899 | |
| Stutsman | 214,050 | 59,699 | 182,661 | 242,361 | 28,311 | |
| Towner | 33,067 | 7,837 | 28,218 | 36,055 | 2,988 | |
| Trall | 60,726 | 23,100 | 51,821 | 74,921 | 14,195 | |
| Walsh | 154,591 | 33,760 | 131,922 | 165,682 | 11,091 | |
| Ward | 462,139 | 160,217 | 394,370 | 554,587 | 92,448 | |
| Wells | 83,058 | 13,903 | 70,878 | 84,781 | 1,723 | |
| Williams | 249,413 | 53,849 | 212,839 | 266,687 | 17,275 | |
| | 6,152,150 | 1,750,000 | 5,250,000 | 7,000,000 | 655,281 | (7,439) |
| | | Number of in Each Column | | | 47 | 6 |

2/14/2003

SB2374 Bank Tax Analysis

County

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Proposed Amendments to Senate Bill No. 2374

Page 7, line 29, after "on" insert "the following formula. Seventy-five percent of the total shall be distributed based on the relative amount that each county received in financial institutions tax revenue in calendar year 2000 and twenty-five percent shall be distributed based on"

Renumber accordingly

This amendment has been drafted to minimize the negative impacts of the formula change on distributions to local government, but to maintain some the dynamic nature of a census-based formula.

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10/22/03
Date

SB 2374
Testimony of Jim Schlosser
North Dakota Bankers Association

The North Dakota Bankers Association (NDBA) represents nearly 100 financial institutions in the state including the largest and smallest bank and all of the savings institutions in North Dakota. I appear today to express concerns with certain sections of SB 2374. I want to emphasize that our members not only support economic development in the state, but are active participants on nearly every local and regional development board and provide funding for many projects throughout the state. Our industry currently has \$3.5 billion in commercial loans; \$5.8 billion in real estate loans and all of the SBA loans in the past three years totaling approximately \$136 million have been made by banks and savings institutions. Banks have partnered on many local economic development projects which have created thousands of jobs throughout the state.

Banks also want to pay their fair share of taxes. (See attached sheet with state tax payments for 1998-2001 with estimates for 2002.) Competition for your business is intense in the state and others in our market pay no income taxes or have a tax-favor status such as the credit unions and the Farm Credit System.

South Dakota, which has done very well with economic development and attracting financial centers, has a state franchise tax of six percent on financial institutions and South Dakota allows a federal deduction. If SB 2374 passes in its

Page 1 of 3

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present form, the effective state income tax for financial institutions that are C Corporations in North Dakota will be double the tax rate in South Dakota as laws in that state allow the federal deduction with the six percent rate. As you well know, individuals do not pay income tax in South Dakota.

There are many factors in determining the effective tax rate for financial institutions and corporations in the state. Any time the tax rate is adjusted and an industry moves from one section of the tax code to another, there are "winners and losers". If Senate Bill 2374 is enacted in its present form, the winners will be many corporations who, while important to North Dakota's economy, probably are not directly involved in economic development projects in the state. The big "losers" will be financial institutions who in many cases are the "engines" behind economic development efforts in their service areas. Passage of SB 2374 would result in more than \$2.5 million each year not being available for loans or economic development efforts throughout the state.

Banks have paid the franchise tax for approximately 60 years and the Tax Department records reveal that banks requested that a major portion of the state tax they paid go directly to counties, as it was important that the funds stay in the areas in which the financial institutions were located to support education and other essential activities of local political subdivisions. Changing the formula of the payment to the counties will also create "winners and losers".

Why have financial institutions have been singled out to pay over \$2.5 million

Page 2 of 3

in higher taxes each year in order to offer tax relief to other corporations in the state??? The money paid for additional state income taxes under this bill will mean less money available for loans and economic development projects throughout the state. The banking industry was not aware of this approach until late last week and have not had a good deal of time to measure its impact. Some banks that have done calculations and it appears there is approximately 30 percent state tax increase for C Corporations. One small community bank in central North Dakota has informed us that based on their 2001 income, this bill would increase their state tax by 57 percent, and with amendments addressing the issues in the previous testimony, the increase would be 39 percent.

Many of our members who are C Corps are asking why our industry is being targeted for additional taxes to give tax breaks to other corporations while our industry is the driving force behind economic development in the state.

Page 3 of 3

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10/22/03

Date

North Dakota Bank and Savings and Loans Tax Contributions - 2002

Data provided by the ND Office of the State Tax Commissioner. Numbers are "certified" except for the 2002 estimates.

| County | 1998 | 1999 | 2000 | 2001 | 2002 (Est.) |
|--|--------------------|--------------------|---------------------|---------------------|--------------------|
| Adams | \$17,467 | \$16,898 | \$22,308 | \$22,899 | \$17,551 |
| Barnes | 130,185 | 141,578 | 168,238 | 170,840 | 131,012 |
| Benson | 23,080 | 25,082 | 29,460 | 30,231 | 23,210 |
| BWings | 1,824 | 1,884 | 2,330 | 2,391 | 1,838 |
| Brittneau | 110,152 | 119,808 | 140,677 | 144,404 | 110,868 |
| Sowman | 88,844 | 72,485 | 85,111 | 87,368 | 87,077 |
| Burke | 28,382 | 30,848 | 36,221 | 37,181 | 28,548 |
| Burling | 357,444 | 388,777 | 458,498 | 488,589 | 358,788 |
| Cass | 1,133,642 | 1,233,015 | 1,447,788 | 1,488,141 | 1,141,818 |
| Cavalier | 95,172 | 103,515 | 121,548 | 124,785 | 95,791 |
| Dickey | 54,889 | 59,493 | 69,558 | 71,788 | 55,854 |
| Divide | 49,703 | 54,080 | 63,478 | 65,158 | 50,028 |
| Dunn | 25,583 | 27,826 | 32,873 | 33,538 | 25,750 |
| Eddy | 10,058 | 10,940 | 12,848 | 13,188 | 10,124 |
| Emmons | 70,721 | 76,820 | 90,318 | 92,711 | 71,181 |
| Foster | 57,218 | 62,233 | 73,073 | 75,088 | 57,580 |
| Golden Valley | 31,515 | 34,278 | 40,248 | 41,315 | 31,720 |
| Grand Forks | 511,915 | 558,788 | 653,772 | 671,091 | 515,244 |
| Grant | 23,029 | 25,048 | 29,411 | 30,180 | 23,178 |
| Griggs | 54,415 | 59,185 | 69,494 | 71,335 | 54,788 |
| Hettinger | 31,492 | 37,591 | 44,139 | 45,388 | 34,788 |
| Kidder | 24,829 | 27,088 | 31,710 | 32,550 | 24,891 |
| LaMoure | 48,512 | 50,589 | 59,401 | 60,974 | 48,814 |
| Logan | 48,888 | 50,974 | 59,553 | 61,439 | 47,171 |
| McHenry | 31,880 | 34,784 | 40,843 | 41,925 | 32,188 |
| McIntosh | 70,048 | 76,188 | 89,458 | 91,828 | 70,501 |
| McKenzie | 69,593 | 75,894 | 88,578 | 91,233 | 70,048 |
| McLean | 79,539 | 85,820 | 101,708 | 104,402 | 80,157 |
| Mercer | 79,872 | 85,558 | 101,750 | 104,448 | 80,180 |
| Morton | 125,725 | 136,748 | 160,555 | 164,818 | 128,543 |
| Mountrail | 105,784 | 115,057 | 135,088 | 138,877 | 108,472 |
| Nelson | 62,362 | 67,829 | 79,844 | 81,753 | 62,788 |
| Oliver | 10,917 | 11,874 | 13,943 | 14,312 | 10,988 |
| Pembina | 127,248 | 138,400 | 162,588 | 166,813 | 128,074 |
| Pierce | 83,127 | 88,881 | 106,820 | 109,758 | 83,538 |
| Ramsay | 150,776 | 163,993 | 192,558 | 197,859 | 151,787 |
| Ransom | 79,191 | 85,133 | 101,138 | 103,815 | 79,788 |
| Renville | 21,088 | 22,948 | 28,945 | 29,859 | 21,238 |
| Richland | 183,208 | 177,512 | 208,432 | 213,953 | 184,267 |
| Rolette | 58,953 | 64,121 | 75,290 | 77,285 | 59,337 |
| Sargent | 77,221 | 83,990 | 98,820 | 101,233 | 77,723 |
| Sheridan | 18,555 | 18,088 | 21,143 | 21,703 | 18,883 |
| Sioux | 315 | 343 | 403 | 413 | 317 |
| Slope | 0 | 0 | 0 | 0 | 0 |
| Stark | 249,211 | 271,058 | 318,270 | 328,701 | 250,831 |
| Steele | 34,273 | 37,278 | 43,771 | 44,931 | 34,498 |
| Stuteman | 204,750 | 222,899 | 261,488 | 268,416 | 208,082 |
| Towner | 31,830 | 34,403 | 40,398 | 41,488 | 31,838 |
| Trail | 58,088 | 63,179 | 74,184 | 76,150 | 58,488 |
| Walsh | 147,875 | 160,838 | 188,553 | 193,858 | 148,837 |
| Ward | 442,081 | 480,812 | 584,582 | 579,518 | 444,937 |
| Wells | 79,449 | 86,414 | 101,488 | 104,154 | 79,988 |
| Williams | 238,578 | 259,490 | 304,890 | 312,761 | 240,129 |
| Total in Distribution Fund (5/7 of Tax Collected) | \$5,881,808 | \$6,400,740 | \$7,515,657 | \$7,714,748 | \$5,833,162 |
| Total in General Fund (2/7 of Tax Collected) | \$2,352,723 | \$2,560,286 | \$3,006,263 | \$3,085,899 | 288 |
| Total Tax Collected | \$8,234,531 | \$8,961,026 | \$10,521,920 | \$10,800,648 | 2,427 |

(Numbers do not include refunds or interest payments)

North Dakota banks are assessed a 7% tax on their reported North Dakota taxable income. The Financial Institution code (replacing the Bank Tax code) requires the Tax Department to calculate a percentage of what each county received in the tax years from 1992-1998. This percentage was based on each county's collection in the five years compared to the entire amount collected by all of the counties. This percentage is fixed.

After returns are filed in April, the Tax Department collects the 7% tax and puts 5/7 of it into a Distribution Fund (the remaining 2/7 is placed in the state General Fund). On the following February 15, the Distribution Fund total is multiplied by each county's fixed percentage. This is the amount the State Treasurer returns to each county on or before March 10.

Compiled by the North Dakota Bankers Association, December 2002

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10/22/03

Date

Testimony to the
SENATE FINANCE AND TAXATION COMMITTEE
Prepared on February 5, 2003 by
Mark A. Johnson, CAE – Executive Director
North Dakota Association of Counties

Regarding Senate Bill 2374

Mr. Chairman and members of the Senate Finance and Taxation Committee,
I am here today to speak in support of Senate Bill 2374.

County government recognizes the purpose of this significant change in
State taxation policy, and is very supportive of it, as another effort to make
North Dakota more attractive for business development and relocation.

We are very well aware of the benefits and shortcomings of the measure for
local government. On the positive side it creates a guaranteed level of
revenue, a new more dynamic distribution formula, and a standing and
continuing appropriation. It does however place a limit, or cap, on the
amount of revenue going to local government, but at a level slightly above
current "Bank Tax" proceeds.

In our discussions and analysis of the measure, we believe the benefits to
local government, and the State as a whole, outweigh the shortcomings; and
we therefore urge the Committee to give Senate Bill 2374 a Do Pass
recommendation.

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TESTIMONY IN OPPOSITION TO SENATE BILL 2374

Good morning Chairman Urlacher and members of the Finance and Taxation Committee. For the record my name is Donald Forsberg and I am the Executive Vice President of Independent Community Banks of North Dakota (ICBND). On behalf of the membership of ICBND I am testifying in opposition to house bill 2374.

I will begin this testimony by stating that our association membership is not opposed to the primary intent of the bill to change the tax rates in order to clarify the "perception" that North Dakota is a high tax state. We also understand that the loss of the federal tax deduction is the "price" being paid for the lower tax rates for non-financial institutions. We also understand that this "price" is, in reality, a "reduction" in state income taxes for a significant number of regular corporate taxpayers (other than financial institutions and for the purposes of my testimony banks in particular).

The banks, who comprise the membership of ICBND, are proud to count themselves among the most consistent, creative and strongest supporters of economic development within the state, especially at the community level. Not only are banks good corporate citizens in our communities but we are driven by self preservation and the principles of free enterprise to do everything

we can to help our communities survive and thrive. Bankers serve on almost every economic development organization in the state.

While Senate Bill 2374 attempts to improve the "perception" of a better business climate for outside organization who may consider moving or expanding to our state in reality it will deteriorate the business climate for many of the strongest current economic development supporters in the state. The "perception" upon reading Senate Bill 2374 is that banks have always had a 7% state tax rate and non bank corporate filers have not so changing the tax rate and eliminating the federal tax deduction for all puts everyone on the same basis. The reality is the tax is, and would be, applied to taxable income arrived at by entirely different set of rules. The major differences are in tax rules attached to this testimony on page 5. The reason for the difference apparently has a long history which I am not knowledgeable enough to explain. I can tell you Bank taxation is covered under a section 57-35 of the Century Ccode and non bank taxation is covered under section 57-38. As you can see from the attachment banks and non banks taxable income, which are derived from separate parts of the Century Code, have differing revenue reductions, different forms and differing rules relating to allowable deductions.

In plain language this is a tax increase for a significant number of banks' because of the changes in this bill, the tax increase for banks is magnified by

the separate taxable income calculations for banks as compared to non banks. The end result will be to move additional dollars which would otherwise be available for local economic development and out of our county governments to the state treasury.

Mr. Chairman and members of the Committee, some of the "perceptions" compared reality contained within the bill are the following:

- "Perception" counties will receive a guarantee that they will receive \$7 million dollars with a shortfall made up by the general fund. The reality is that state bank taxes have exceeded this \$7 million dollar amount in two of the last 5 years and with an initial projected impact of an annual increase of about \$2.5 million dollars. Also, the \$7 million dollars to the counties will not grow with the State's economy.
- "Perception" of the bill appears to be economic development but the reality is if the bill is adopted with the allocation changes to the distribution of the \$7 million a number of counties experiencing declining populations may experience significant decrease in funds they currently receive and use for their operations including economic development. If they have less funding they will be less able to provide attractive incentives or

maintain adequate resources. This would become a perpetual downward spiral.

In summary, Senate Bill 2374 as originally drafted would have the end result of a sizable tax increase for many banks, it would also move funds away from local communities as banks would pay in more taxes but amounts over the \$7 million would be retained by the state, and counties with declining populations would see less in operating monies as a result of the change in the distribution formula.

Mr. Chairman and members of the committee on behalf of our membership I strongly oppose this bill for the reasons I have listed. This concludes my testimony and I will try and answer any questions you may have.

**TAX DIFFERENCES BETWEEN
FINANCIAL INSTITUTIONS
AND OTHER CORPORATIONS**

- Financial institutions pay tax on US interest, other corporations don't.
- Financial institutions pay tax on North Dakota state and local interest, other corporations don't.
- Other corporations can combine income and losses of parent and subsidiaries, financial institutions can't.
- Other corporations, that have elected S for federal tax purposes, are treated as an S corporation in North Dakota. Financial institutions that have elected S for federal tax purposes are not allowed to be treated as S corporations in North Dakota. (An S corporation is where the shareholders pay tax on the earnings of the corporation in lieu of the corporation paying tax on its earnings).

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| C corp banks --- excluding municipal interest | | | | |
|--|----------|--|--------|------------|
| ND TAX CHANGE - between \$75,000 & \$100,000 OR over \$335,000 | | | | |
| | Before | | After | difference |
| Taxable income | 100 | | 100 | |
| State tax | 4.732637 | | 6.9 | 2.167363 |
| Federal tax | 32.3909 | | 31.654 | |
| Total tax | 37.1235 | | 38.554 | 1.43046 |

| C corp banks --- excluding municipal interest | | | | |
|---|----------|--|--------|------------|
| ND TAX CHANGE - between \$100,000 & \$335,000 | | | | |
| | Before | | After | difference |
| Taxable income | 100 | | 100 | |
| State tax | 4.389843 | | 6.9 | 2.510157 |
| Federal tax | 37.28796 | | 36.309 | |
| Total tax | 41.6778 | | 43.209 | 1.531198 |

| S corp banks --- excluding municipal interest | | | | |
|--|--------|--|-------|------------|
| ND TAX CHANGE - between \$75,000 & \$100,000 OR over \$335,000 | | | | |
| | Before | | After | difference |
| Taxable income | 100 | | 100 | |
| State tax | 7 | | 6.9 | -0.1 |
| Federal tax | | | | |
| Total tax | 7 | | 6.9 | -0.1 |

MEMO: There would be an increase in ND in years subject to
 The 35% federal Built-in-Gains Tax
 A. Tax bad debt reserve over first 6 years as S
 B. If cash basis, accrued interest income over accrued
 interest expense in first year as an S

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Deanna Hallmark
 Operator's Signature

10/22/03
 Date

Small Business Survival Committee

REVISED & EXPANDED

SMALL BUSINESS SURVIVAL COMMITTEE'S

SEVENTH ANNUAL

SMALL BUSINESS SURVIVAL INDEX 2002:

RANKING THE POLICY ENVIRONMENT FOR ENTREPRENEURSHIP
ACROSS THE NATION

by Raymond J. Keating
Chief Economist
Small Business Survival Committee

and
Co-author of

U.S. by the Numbers: Figuring What's Left, Right, and Wrong with America State by State

July 2002

Small Business Survival Committee
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Operator's Signature

Deanna Ballantyne

Date

10/22/03

Appendix A: Listed Alphabetically
Small Business Survival Committee's Seventh Annual
Small Business Survival Index 2002

| State | Top Personal Income Tax Rate ¹ | Top Capital Gains Tax Rate ² | Top Corporate Income Tax Rate ³ | Indiv. Corp. AMT ⁴ | FTT Rate ⁵ | Property Tax ⁶ | Gross Rec. Excise Tax ⁷ | Death Tax ⁸ | Unemp. Tax ⁹ | Health Care Costs ¹⁰ | Electric Utilities Costs ¹¹ | Workers' Comp. Rate ¹² | Crime to Work ¹³ | Right to Work ¹⁴ | Bonds ¹⁵ | IL ¹⁶ | Internet Access Tax ¹⁷ | Gas Tax ¹⁸ | State Misc. Taxes ¹⁹ | SBSI |
|-------|---|---|--|-------------------------------|-----------------------|---------------------------|------------------------------------|------------------------|-------------------------|---------------------------------|--|-----------------------------------|-----------------------------|-----------------------------|---------------------|------------------|-----------------------------------|-----------------------|---------------------------------|--------|
| AL | 3.07 | 4.00 | 4.225 | 0 | 1 | 1.24 | 4.00 | 0 | 1.66 | 0.97 | 0.79 | 1.08 | 4.55 | 0 | 6.01 | 1 | 0 | 0.18 | 0.00 | 33.775 |
| AK | 0.0 | 0.0 | 9.4 | 0 | 0 | 4.24 | 1.44 | 0 | 3.99 | 0.92 | 1.48 | 1.76 | 4.25 | 1 | 7.80 | 1 | 0 | 0.08 | 2.00 | 40.360 |
| AZ | 5.04 | 5.04 | 6.8 | 0 | 1 | 3.18 | 4.34 | 0 | 1.16 | 0.82 | 0.93 | 0.68 | 5.83 | 0 | 4.74 | 0 | 0 | 0.18 | 0.00 | 39.740 |
| AR | 7.0 | 4.9 | 5.5 | 0 | 1 | 2.60 | 4.35 | 0 | 2.87 | 0.94 | 0.82 | 0.68 | 4.12 | 0 | 5.61 | 0 | 0 | 0.22 | 0.00 | 41.610 |
| CA | 9.3 | 9.3 | 8.84 | 1 | 0 | 2.75 | 3.60 | 0 | 0.92 | 0.91 | 1.59 | 1.49 | 3.74 | 1 | 5.03 | 0 | 0 | 0.18 | 1.60 | 52.250 |
| CO | 4.63 | 4.63 | 4.63 | 1 | 0 | 2.88 | 3.26 | 0 | 1.45 | 0.89 | 0.83 | 0.98 | 3.98 | 1 | 5.30 | 0 | 0 | 0.22 | 0.00 | 36.680 |
| CT | 4.5 | 4.5 | 7.5 | 0 | 1 | 4.22 | 3.49 | 1 | 2.21 | 1.24 | 1.38 | 0.89 | 3.23 | 1 | 5.32 | 1 | 1 | 0.25 | 1.55 | 46.280 |
| DE | 5.95 | 5.95 | 8.7 | 0 | 1 | 1.58 | 0.79 | 0 | 1.90 | 1.13 | 0.92 | 0.69 | 4.48 | 1 | 5.75 | 0 | 0 | 0.23 | 1.00 | 41.070 |
| DC | 9.3 | 9.3 | 9.975 | 0 | 1 | 3.46 | 4.59 | 0 | 1.19 | 1.77 | 0.92 | 0.34 | 7.28 | 1 | 7.79 | 1 | 0 | 0.20 | 1.00 | 60.115 |
| FL | 0.0 | 0.0 | 5.5 | 0 | 1 | 3.46 | 4.67 | 0 | 1.47 | 1.08 | 1.09 | 1.11 | 5.69 | 0 | 4.90 | 0 | 0 | 0.14 | 0.00 | 30.110 |
| GA | 6.0 | 6.0 | 6.0 | 0 | 1 | 2.72 | 4.10 | 0 | 1.34 | 0.93 | 0.86 | 0.71 | 4.75 | 0 | 5.48 | 1 | 0 | 0.08 | 0.00 | 40.970 |
| HI | 8.25 | 7.25 | 6.4 | 0 | 1 | 1.87 | 5.88 | 0 | 5.16 | 1.00 | 1.81 | 1.49 | 5.20 | 1 | 5.65 | 1 | 1 | 0.16 | 0.60 | 54.720 |
| ID | 7.8 | 3.12 | 7.6 | 0 | 1 | 3.02 | 3.00 | 0 | 5.03 | 0.81 | 0.82 | 1.11 | 3.19 | 0 | 5.76 | 1 | 0 | 0.25 | 0.00 | 43.510 |
| IL | 3.0 | 3.0 | 7.3 | 0 | 1 | 3.90 | 3.00 | 0 | 1.61 | 0.82 | 0.95 | 0.82 | 4.29 | 1 | 4.94 | 1 | 0 | 0.19 | 0.00 | 36.820 |
| IN | 3.4 | 3.4 | 7.9 | 0 | 1 | 3.48 | 2.74 | 1 | 1.22 | 0.95 | 0.76 | 0.63 | 3.75 | 1 | 5.31 | 1 | 0 | 0.15 | 0.00 | 37.690 |
| IA | 5.514 | 7.184 | 9.9 | 1 | 0 | 3.56 | 3.12 | 1 | 4.99 | 1.00 | 0.80 | 0.84 | 3.23 | 0 | 6.02 | 1 | 0 | 0.20 | 0.00 | 50.358 |
| KS | 6.45 | 6.45 | 7.35 | 0 | 1 | 3.12 | 3.69 | 1 | 2.02 | 0.99 | 0.86 | 0.92 | 4.41 | 0 | 6.34 | 1 | 0 | 0.21 | 0.00 | 45.810 |
| KY | 6.0 | 6.0 | 8.25 | 0 | 1 | 1.89 | 3.55 | 1 | 2.50 | 0.99 | 0.57 | 1.06 | 2.96 | 1 | 5.60 | 1 | 0 | 0.15 | 0.00 | 43.520 |
| LA | 3.684 | 4.8 | 5.2 | 0 | 1 | 1.66 | 5.57 | 1 | 1.56 | 0.99 | 0.79 | 0.90 | 5.42 | 0 | 6.27 | 0 | 0 | 0.20 | 0.00 | 39.044 |
| ME | 8.5 | 8.5 | 8.93 | 1 | 0 | 5.27 | 3.37 | 0 | 2.34 | 1.07 | 1.58 | 1.61 | 2.62 | 1 | 5.80 | 1 | 0 | 0.22 | 0.00 | 53.810 |
| MD | 4.75 | 4.75 | 7.0 | 1 | 1 | 2.62 | 2.27 | 1 | 1.75 | 1.02 | 0.83 | 1.48 | 4.82 | 1 | 5.19 | 1 | 0 | 0.24 | 0.00 | 41.720 |
| MA | 5.3 | 5.3 | 9.5 | 0 | 1 | 3.56 | 2.05 | 0 | 1.76 | 1.28 | 1.49 | 0.47 | 3.03 | 1 | 5.21 | 1 | 0 | 0.22 | 1.60 | 43.770 |
| MI | 4.1 | 4.1 | 1.9 | 0 | 1 | 3.35 | 3.14 | 0 | 2.08 | 0.98 | 1.03 | 0.97 | 4.11 | 1 | 5.00 | 1 | 0 | 0.19 | 0.00 | 33.950 |
| MS | 5.0 | 0.0 | 5.0 | 0 | 1 | 2.52 | 4.86 | 0 | 1.50 | 0.92 | 0.85 | 1.05 | 4.00 | 0 | 6.75 | 0 | 0 | 0.18 | 0.00 | 33.630 |
| MO | 6.0 | 6.0 | 5.156 | 0 | 1 | 2.39 | 3.57 | 0 | 1.47 | 1.00 | 0.79 | 0.69 | 4.53 | 1 | 5.43 | 0 | 0 | 0.17 | 0.00 | 39.196 |
| NE | 6.68 | 6.68 | 7.81 | 0 | 1 | 3.63 | 2.82 | 1 | 1.37 | 0.86 | 0.72 | 0.77 | 4.10 | 0 | 6.54 | 1 | 0 | 0.25 | 0.00 | 46.350 |
| NV | 0.0 | 0.0 | 0.0 | 0 | 0 | 2.43 | 5.84 | 0 | 3.50 | 0.84 | 1.13 | 0.90 | 4.27 | 0 | 4.13 | 0 | 0 | 0.23 | 0.00 | 23.270 |
| NH | 0.0 | 0.0 | 8.5 | 0 | 0 | 5.72 | 1.13 | 1 | 1.50 | 1.02 | 1.50 | 0.81 | 2.43 | 1 | 5.22 | 1 | 0 | 0.18 | 0.00 | 31.010 |
| NJ | 6.37 | 6.37 | 9.0 | 0 | 1 | 5.16 | 2.71 | 1 | 2.90 | 1.12 | 1.32 | 0.64 | 3.16 | 1 | 5.41 | 1 | 0 | 0.15 | 0.00 | 48.310 |
| NM | 8.2 | 8.2 | 7.6 | 0 | 1 | 1.60 | 5.80 | 0 | 3.12 | 0.85 | 1.00 | 0.79 | 5.52 | 1 | 6.59 | 1 | 0 | 0.17 | 0.00 | 52.440 |
| NY | 6.85 | 6.85 | 8.775 | 1 | 1 | 4.23 | 3.55 | 0 | 1.61 | 1.25 | 1.46 | 0.76 | 3.10 | 1 | 6.20 | 1 | 0 | 0.32 | 0.00 | 49.955 |
| NC | 8.25 | 8.25 | 6.9 | 0 | 1 | 2.27 | 3.07 | 1 | 2.84 | 0.94 | 0.96 | 0.69 | 4.92 | 0 | 5.66 | 1 | 0 | 0.24 | 0.00 | 47.990 |
| ND | 5.54 | 5.54 | 6.825 | 0 | 1 | 3.42 | 4.05 | 0 | 7.11 | 1.03 | 0.80 | 1.19 | 2.28 | 0 | 6.02 | 1 | 1 | 0.21 | 0.00 | 47.025 |

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Demetrius Hall
Operator's Signature

10/22/03
Date

**Appendix A: Listed Alphabetically
Small Business Survival Committee's Seventh Annual
Small Business Survival Index 2002**
continued

| State | Top Personal Income Tax Rate | Top Capital Gains Tax Rate | Top Corporate Income Tax Rate | Indiv. Corp. AMT | PTT Rate | Property Tax | Gross Rec. Excise Tax | Death Taxes | Unemp. Tax | Health Care Costs | Electric Utilities Costs | Workers' Comp. | Crime Rate | Right to Work | IL | Internet Access | Gas Tax | State Min. Wage | SBSI |
|-------|------------------------------|----------------------------|-------------------------------|------------------|----------|--------------|-----------------------|-------------|------------|-------------------|--------------------------|----------------|------------|---------------|----|-----------------|---------|-----------------|------|
| OH | 7.5 | 7.5 | 8.5 | 0 | 1 | 3.17 | 2.91 | 1 | 1.80 | 1.00 | 0.89 | 1.19 | 4.04 | 1 | 1 | 0.22 | 0.00 | 49,060 | |
| OK | 7.0 | 7.0 | 6.0 | 0 | 1 | 1.67 | 3.67 | 1 | 2.10 | 0.90 | 0.69 | 1.13 | 4.56 | 0 | 0 | 0.17 | 0.00 | 42,660 | |
| OR | 9.0 | 9.0 | 6.6 | 0 | 0 | 3.00 | 0.56 | 0 | 4.12 | 0.89 | 0.97 | 0.81 | 4.85 | 1 | 0 | 0.24 | 1.35 | 47,550 | |
| PA | 2.8 | 2.8 | 9.99 | 0 | 1 | 2.94 | 2.95 | 1 | 2.13 | 1.11 | 1.12 | 1.29 | 3.00 | 1 | 0 | 0.27 | 0.00 | 38,800 | |
| RI | 9.9 | 5.0 | 9.0 | 0 | 0 | 4.64 | 2.91 | 0 | 3.59 | 1.20 | 1.36 | 0.99 | 3.48 | 1 | 0 | 0.28 | 1.00 | 50,730 | |
| SC | 7.0 | 3.97 | 5.0 | 0 | 0 | 2.86 | 3.38 | 0 | 1.34 | 0.94 | 0.83 | 1.26 | 5.22 | 0 | 0 | 0.16 | 0.00 | 38,750 | |
| TN | 0.0 | 0.0 | 6.0 | 0 | 0 | 2.01 | 4.76 | 1 | 2.28 | 1.01 | 0.82 | 0.79 | 4.89 | 0 | 1 | 0.20 | 0.00 | 31,090 | |
| TX | 0.0 | 0.0 | 4.5 | 0 | 0 | 3.70 | 4.41 | 0 | 1.62 | 0.90 | 1.02 | 0.75 | 4.96 | 0 | 1 | 0.20 | 0.00 | 29,730 | |
| UT | 5.649 | 6.3 | 5.0 | 0 | 0 | 2.54 | 4.31 | 0 | 6.10 | 0.73 | 0.77 | 0.55 | 4.48 | 0 | 1 | 0.25 | 0.00 | 43,239 | |
| VT | 9.264 | 4.8 | 9.75 | 0 | 0 | 5.23 | 2.67 | 0 | 1.49 | 0.97 | 1.59 | 1.37 | 2.99 | 1 | 0 | 0.20 | 1.10 | 49,454 | |
| VA | 5.75 | 5.75 | 6.0 | 0 | 1 | 2.99 | 2.53 | 0 | 1.41 | 0.87 | 0.87 | 0.49 | 3.03 | 0 | 0 | 0.18 | 0.00 | 37,400 | |
| WA | 0.0 | 0.0 | 0.0 | 0 | 0 | 3.54 | 6.13 | 0 | 4.15 | 0.90 | 0.86 | 1.54 | 5.11 | 1 | 0 | 0.23 | 1.75 | 31,340 | |
| WV | 6.5 | 6.5 | 9.0 | 1 | 0 | 2.21 | 4.27 | 0 | 2.53 | 1.08 | 0.73 | 4.24 | 2.60 | 1 | 0 | 0.21 | 0.00 | 49,230 | |
| WY | 6.75 | 0.0 | 7.9 | 1 | 0 | 4.03 | 3.06 | 0 | 3.04 | 1.02 | 0.87 | 0.87 | 3.21 | 1 | 0 | 0.31 | 0.00 | 44,100 | |
| WY | 0.0 | 0.0 | 0.0 | 0 | 0 | 4.37 | 3.87 | 0 | 4.44 | 0.90 | 0.64 | 0.80 | 3.30 | 0 | 1 | 0.14 | 0.00 | 27,640 | |

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