

**Tax Commissioner
Budget 127
House Bill No. 1006**

	FTE Positions	General Fund	Other Funds	Total
2013-15 legislative appropriation	134.00	\$57,093,140 ¹	\$125,000	\$57,218,140
2011-13 legislative appropriation	<u>134.00</u>	<u>40,220,304²</u>	<u>10,000</u>	<u>40,230,304</u>
2013-15 appropriation increase (decrease) to 2011-13 appropriation	0.00	\$16,872,836	\$115,000	\$16,987,836

¹This amount includes one-time funding. Excluding this amount, the agency's ongoing general fund appropriation is \$56,054,140.

²The amount shown reflects a \$981,855 general fund deficiency appropriation approved by the Legislative Assembly in 2013 for additional expenses associated with the disabled veterans property tax credit program for the 2011-13 biennium.

NOTE: The 2013-15 legislative appropriation amounts include \$39,000 from the general fund for the agency's share of the \$8.5 million funding pool appropriated to the Office of Management and Budget for state agency needs resulting from energy development.

Item Description

Accrued leave payments - In Section 1 of House Bill No. 1006, the Legislative Assembly identified \$624,818 from the general fund for accrued leave payments.

One-time funding - The Legislative Assembly identified \$1 million of one-time funding from the general fund for the 2013-15 biennium to integrate the existing sales tax system into the GenTax taxpayer access point system.

Grant to North Dakota State University (NDSU) - Section 3 of House Bill No. 1006 provides an exemption from North Dakota Century Code Section 54-44.1-11 of up to \$50,000 of the Tax Commissioner's unspent general fund authority for the 2009-11 biennium which was continued into the 2011-13 biennium. The funds may be distributed by the Tax Commissioner as a grant to the NDSU Department of Agribusiness and Applied Economics for the purpose of converting the software of the core model used for the preparation of agricultural land valuations as required under Section 57-02-27.2 during the 2013-15 biennium.

Homestead tax credit program and disabled veterans property tax credit program - The homestead tax credit program provides tax credits to eligible homeowners who are aged 65 or older or who are certified as permanently and totally disabled regardless of age. Renters who are aged 65 or older or who are certified as permanently and totally disabled regardless of age may qualify for a rent refund. The disabled veteran property tax credit program provides tax credits to disabled veterans with an armed forces service-connected disability of 50 percent or greater.

Status/Result

The Tax Department has expended \$29,524 from the accrued leave payments line item related to retirements as of March 2014. The department anticipates a transfer of all remaining funds from the accrued leave payments line item to the salaries and wages line item will be necessary.

The Tax Department anticipates completing the project by September 2014 within the \$1 million of funding provided.

The Tax Department awarded a \$46,071 grant to the NDSU Department of Agribusiness and Applied Economics for conversion of the core model software. The software conversion was completed in December 2013.

The schedules below present the number of eligible homeowners, renters, disabled veterans, and the payments made in recent years.

House Bill No. 1306 (2013) expands the disabled veterans homestead property tax credit by increasing the limitation on the taxable valuation subject to the tax credit from the first \$5,400 of taxable valuation of the homestead to the first \$6,750 of taxable valuation. This increases the true and full value limitation from \$120,000 to \$150,000.

Senate Bill No. 2171 (2013) includes the following provisions to expand the homestead property tax credit and renters refund program for elderly and disabled citizens:

- Increases the assets threshold from \$75,000 to \$500,000 before a person becomes ineligible for any exemptions.
- Increases the income threshold from \$18,000 to \$22,000 for a reduction of 100 percent of the taxable valuation of the person's homestead, up to a maximum reduction of \$4,500 of taxable valuation.
- Increases the income threshold from \$20,000 to \$26,000 for a reduction of 80 percent of the taxable valuation of the person's homestead, up to a maximum of \$3,600 of taxable valuation.
- Increases the income threshold from \$22,000 to \$30,000 for a reduction of 60 percent of the taxable valuation of the person's homestead, up to a maximum reduction of \$2,700 of taxable valuation.
- Increases the income threshold from \$24,000 to \$34,000 for a reduction of 40 percent of the taxable valuation of the person's homestead, up to a maximum reduction of \$1,800 of taxable valuation.
- Increases the income threshold from \$26,000 to \$38,000 for a reduction of 20 percent of the taxable valuation of the person's homestead, up to a maximum reduction of \$900 of taxable valuation.

Section 27 of House Bill No. 1015 (2013) provides a reduction of 10 percent of the taxable valuation of the person's homestead, up to a maximum reduction of \$450 of taxable valuation, if the person's annual income is between \$38,000 and \$42,000.

House Bill No. 1006 includes an appropriation of \$20 million from the general fund for expenditures relating to the homestead tax credit program and \$7,678,000 from the general fund for expenditures relating to the disabled veterans property tax credit program.

Individual and corporate income tax relief

House Bill No. 1198 (2013) provides for income tax withholding on oil royalty payments to nonresidents. The withholding provisions of House Bill No. 1198 are estimated to increase individual income tax collections by \$4.2 million during the 2013-15 biennium.

Senate Bill No. 2156 (2013) amends the corporate and individual income tax rates. Corporate income taxes are reduced by 12 percent and individual income tax rates by 19 percent. The reduced income tax rate

Year	Number Eligible for Program			Total
	Homeowners	Renters	Disabled Veterans ¹	
2002	4,341	1,329		5,670
2003	4,060	1,288		5,348
2004	3,923	1,335		5,258
2005	3,817	1,322		5,139
2006	3,516	1,273		4,789
2007	3,677	1,305		4,982
2008	3,466	1,998		5,464
2009	3,715	2,051		5,766
2010	3,977	2,400	1,513	7,890
2011	4,451	2,367	1,764	8,582
2012	4,359	2,257	2,192	8,808
2013	4,265	2,283	2,460	9,008

¹Prior to 2009, disabled veterans were given a property tax exemption resulting in a revenue loss to the local governments which was not reimbursed by the state.

Year	Payments Made Under Program			Total
	Homeowners	Renters	Disabled Veterans ¹	
2002	\$1,768,001	\$173,754		\$1,941,755
2003	\$1,676,737	\$172,224		\$1,848,961
2004	\$1,659,707	\$185,807		\$1,845,514
2005	\$1,655,555	\$186,896		\$1,842,451
2006	\$2,025,060	\$182,947		\$2,208,007
2007	\$2,008,310	\$188,418		\$2,196,728
2008	\$2,342,186	\$287,682		\$2,629,868
2009	\$2,396,968	\$302,632		\$2,699,600
2010	\$2,912,719	\$550,955	\$1,627,763	\$5,091,437
2011	\$3,375,376	\$584,610	\$1,961,238	\$5,921,224
2012	\$3,312,824	\$584,112	\$2,299,511	\$6,196,447
2013	\$3,352,224	\$583,233	\$2,587,745	\$6,523,202

¹Prior to 2009, disabled veterans were given a property tax exemption resulting in a revenue loss to the local governments which was not reimbursed by the state.

At the time of this report, information was not available from the Tax Department on the total anticipated increase in general fund revenue from income tax withholding on oil royalty payments.

At the time of this report, information was not available from the Tax Department on the total anticipated decrease in general fund revenue from the amended income tax rates.

provisions of House Bill No. 1198 are estimated to reduce individual income tax collections by \$200 million and corporate income tax collections by \$50 million during the 2013-15 biennium.

Senate Bill No. 2325 (2013) increases the long-term capital gains and qualified dividend income exclusion and requires financial institutions to file corporate tax returns. This bill is anticipated to reduce individual income tax collections by \$7 million, increase corporate income tax collection by \$22.5 million, and reduce business privilege tax collections by \$7.3 million during the 2013-15 biennium.

Senate Bill No. 2330 (2013) lowers the interest rate charged on unpaid income taxes. This bill is anticipated to reduce general fund revenues by \$30,000 during the 2013-15 biennium.

Senate Bill No. 2014 (2013) provides for a one-time transfer of \$15.4 million from the general fund to the housing incentive fund. The bill creates a new subsection to Section 57-35.3-05 to provide for an income tax credit in an amount equal to any contribution to the housing incentive fund. The bill continues the housing incentive fund tax credit through the first two taxable years after December 31, 2012, and increases the aggregate amount of tax credits allowed to all eligible contributors from \$15 million to \$20 million per biennium. Similar provisions are also included in 2013 House Bill No. 1029.

At the time of this report, information was not available from the Tax Department on the total anticipated changes in general fund revenue from the changes to the long-term capital gains and qualified dividend income exclusion and changes to the financial institutions taxes.

At the time of this report, information was not available from the Tax Department on the total anticipated reduction in general fund revenue from the reduction to the interest rate charged on unpaid income taxes.

As of December 2013, the Housing Finance Agency received \$20 million for contributions to the housing incentive fund, resulting in a corresponding reduction to general fund revenue.