

1999 HOUSE FINANCE AND TAXATION
HB 1061

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1061

House Finance and Taxation Committee

Conference Committee

Hearing Date January 6, 1999

Tape Number	Side A	Side B	Meter #
1	X	X	43.2 - Side B
			0 - 39.2
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. ELIOT GLASSHEIM, GRAND FORKS, Introduced the bill. See attached written testimony.

REP. RENNER With home rule, a city could impose an income tax right now?

REP. GLASSHEIM State a city could impose its own income tax.

REP. RENNER If this bill gets passed, it would allow the Tax Department to collect the taxes?

REP. GLASSHEIM Yes, and get a small fee for the cost of that service.

REP. MICKELSON Is there no way a city can negotiate with the Tax Department today ?

REP. GLASSHEIM I believe it is against the law. They have no authority to do so.

JERRY HJELMSTAD, NORTH DAKOTA LEAGUE OF CITIES, Testified in support of the

bill. The legislation is permissive, the voters in that city would have to vote to approve the home rule charter, this legislation would allow that city to enter into an agreement to collect that tax.

JOSEPH BECKER, STATE TAX DEPARTMENT, Appeared before the committee to answer questions.

REP. BELTER Asked whether the legislative branch can overrule a cities' home rule law by specifying that such a tax can only be used for flood control?

JERRY HJELMSTAD Answered the question. Right now, for home rule cities, they are governed by Chapter 40-05.1 of the century code. That chapter provides 16 different powers the legislature has granted to home rule cities. The legislature would be able to amend those powers.

REP. BELTER The legislature could dictate only what purposes an income tax could be used for?

JERRY HJELMSTAD I imagine by amending that section of the code. Mr. Hjelmstad read from the century code.

REP. WARNER Directed a question to the Tax Department, regarding a question pertaining to collections with taxes on reservations.

JOSEPH BECKER Referred the question.

REP. FROELICH Answered stating the state takes an administration fee and percentage.

JOSEPH BECKER Stated at this point, the state does not know what the fees would be. They don't know the extent of the costs to the state.

REP. BELTER Asked what constituted a resident and non-resident for taxing purposes.

JOSEPH BECKER The city would have to define who they are going to impose the tax on.

Perhaps just on those who live within the city limits, or possibly residents who live in Fargo but have to commute up and have a job in the city of Grand Forks, or own property within the city.

REP. BELTER Asked who would identify who is a resident and who is not.

JOSEPH BECKER It was discussed, he was not sure what kind of records the city of Grand Forks has and what kind of information would be available to the tax department.

REP. RENNERFELDT TO REP. GLASSHEIM, Would there be a sunset clause on this?

REP. GLASSHEIM I hadn't thought that far, it goes for twenty years. This is potentially open to anybody to use the money any way, unless you narrow it and limit it. I have no objection. As it is, it would allow the city to have this as a source of income.

REP. WINRICH to TAX DEPARTMENT The proposal seems to anticipate a negotiation of an agreement similar to the kinds of agreements that are negotiated for collection of sales tax, is there a standard kind of agreement that the tax department negotiates with cities, does that work pretty well?

MYLES VOSBERG, TAX DEPARTMENT, Answered the question. Stating they do have a standard formula. Up to this point, they have used the formula of fifty dollars a permit per year to administer the taxes, but limit it to four percent. It could never be more than four percent of the revenue that is generated.

REP. WINRICH That seems to work well?

MYLES VOSBERG We have had discussion as to the amount that would generate and whether that would change. We have attempted to base that on a cost basis.

REP. KROEBER Commented one of the things that comes to mind, without some type of

limiting requirement, using it for a flood project or whatever, are we opening ourselves up to a situation like we have with sales tax at this point. That has grown beyond belief of most legislators. We are going to have cities with two and maybe even greater than two percent sales tax, almost eliminating our ability to use that for a revenue source. Without some type of limiting factor, I would hate to some time down the road, of losing income tax also.

REP. RENNER Asked whether this legislation could be limited to just Grand Forks.

REP. MICKELSON Stated, apparently cities with home rule can levy income taxes?

JOSEPH BECKER They have that ability to do that now.

JERRY HJELMSTAD Commented that as far as he knows, no city as proceeded further to check that out. Right now, the sales tax is the only thing they use.

REP. HERBEL Commented, regarding what Rep. Kroeber talked about, it might be eliminated by the fact the difference between the sales tax and the income tax, the large cities put these sales tax on so they attract income from outside the city district, where this gets to be an income tax where only residents of that city are going to have to pay, I think it would be highly unlikely they would vote for the income tax.

With no further testimony, the hearing was closed.

After the hearing was closed, the committee members had considerable discussion as to pros and cons for the bill.

REP. FROELICH Asked whether counties could get involved with the way the bill read.

REP. BELTER Felt it would only be cities the way the bill was written.

DONNITA WALD, TAX DEPT. Answered the question, the way it is written right now, it is

for cities only.

REP. HERBEL Asked who would be defined to pay this.

REP. GLASSHEIM Stated, if you want to define it in law, then we should do it now, if you want it defined as the tax commissioner and the cities, then this is the vehicle. There is a question, whether it should be collected just by those who reside in the area, or those who work in the area and earn money there. That seems more complicated. I think, if this passes, it would take six months of negotiations between the city and the tax department to figure out the best, easiest, fairest method.

REP. BELTER Will the proposed dike protect all residents of Grand Forks or others that aren't in the city limits?

REP. GLASSHEIM I think it is within the city limits of Grand Forks, or some areas south of town that are under debate. The Corp, which is paying the federal's share, will not pay for those south of town. There is a war going on as to who wants protection and who doesn't.

REP. RENNERFELDT Who do you have a lot of resistance from?

REP. GLASSHEIM You have a lot of people with a moderate income, whose taxes will go up more than their income. It is a risk, that some people might leave Grand Forks because it costs too much.

REP. GROSZ We gave away sales tax, that is gone. If we pass this bill, we have given away our last revenue source. If we allow this, we will have city states, within the state of North Dakota. They won't need the state anymore. If we give this away, the state will have no more method to raise revenue, there is only two and we gave one away already.

REP. WINRICH Responded to Rep. Grosz' statement. We need to raise a lot of money for Grand Forks, even if you are all very generous and support the fifty two million suggested by the Governor, we still have to raise a lot of money within our own community, and we are willing to do that. We recognize we have a big problem to deal with. We are looking for ways to tax ourselves. The people in the business community in Grand Forks tell me that if we put this burden on property taxes, it will basically kill economic development in Grand Forks. We can't impose that kind of burden on the property taxes and businesses in our community. If we put this on sales tax, then there is a whole lot of objections from the communities in the area. This seems to be a vehicle that will allow us to tax ourselves.

The bill, as submitted, doesn't really do a whole lot. All it does is allow the state to collect that tax.

REP. RENNER Stated he also shared concerns of the home rule and the ability of counties levying a sales tax. I am not so sure we should revisit that authority and take some of those authorities away. We could limit this bill just for the city of Grand Forks.

REP. HERBEL Grand Forks is a unique situation in the fact that they do need a lot of money. Personally, my constituents and myself included, are in the Grand Forks shopping area, and they don't like paying the sales tax. We have already paid for their water treatment plant. I know they have to collect money from somewhere, they will have to get it from the sales tax if this doesn't work out. If they are willing to tax themselves, maybe we could limit this to just Grand Forks.

REP. WARNER Supported Rep. Herbel's earlier comments, that there is a fundamental difference between income tax and sales tax. Sales tax is always an attempt to shift the cost

to a wider trade area, and the income tax is very focused strictly to the people that benefit from the dike. That difference becomes a self-limiting thing. I don't think there will be a big rush to impose income taxes on themselves.

REP. GRANDE Regarding businesses wanting to shift the income taxes on the people, to put income taxes on the people, people are going to have to come up with the money to spend in these businesses, the businesses aren't going to survive anyway.

REP. SCHMIDT I commend these people from Grand Forks to tax themselves with the income tax. They are willing, we should let them do it, we should limit it just to Grand Forks.

REP. GROSZ We are not talking about whether they can levy a tax or not, we are talking about state collecting the funds, whether they are nice enough to tax themselves or not. We need to think beyond that. It will foreclose our ability on a statewide level to do this within in fifteen years. How are we going to fund education. This is what we have to decide.

REP. GLASSHEIM Rep. Grosz has a point. The reason cities have grown in sales tax, is because the state has not wanted, historically over many years, to increase the sales tax, or by increasing state revenues by increasing income tax a little bit. The state still gets five percent of the sales tax, and it would get some of the income tax, it would not lose it.

REP. BELTER Closed discussion on the bill and asked members of the committee to prepare amendments to the bill if they so choose before action is taken on the bill.

COMMITTEE ACTION Tape #2, Side A, Meter #10

REP. RENNER Made a motion for a DO NOT PASS.

REP. HERBEL Second the motion.

During discussion Rep. Winrich stated he was in favor of the bill as it gave cities some options.

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House Finance and Taxation Committee

Bill/Resolution Number Hb 1061

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The bill was introduced because of the crisis in Grand Forks. He stated they needed to raise a great deal of money and there aren't too many ways to do that.

REP. NICHOLAS Felt there are other ways for cities to raise money.

REP. RENNERTFELDT Gave an explanation of what Williston did to raise extra money when that city was in trouble and what they did to help themselves.

After discussion members voted 13 Yes 2 No 0 Absent

REP. MICKELSON Was given the floor assignment.

Please type or use black pen to complete

Date 1-13-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1061

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Renner Seconded By Rep. Herbel

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH		✓
RENNERFELDT	✓				
CLARK	✓				
FROELICH		✓			
GRANDE	✓				
GROSZ	✓				
HERBEL	✓				
KROEBER	✓				
MICKELSON	✓				
NICHOLAS	✓				
RENNER	✓				
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER	✓				

Total 13 2
(Yes) (No)

Absent 0

Floor Assignment Rep. Mickelson

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
January 14, 1999 8:59 a.m.

Module No: HR-08-0581
Carrier: Mickelson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1061: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (13 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1061 was placed on the Eleventh order on the calendar.

1999 TESTIMONY
HB 1061

Testemony in Support of HB 1061

January 6, 1999

Rep. Eliot Glassheim

HB 1061 authorizes the Tax Commissioner to negotiate agreements with home rule cities to collect income taxes if the city wishes to impose an income tax on itself. It amends 57-01-02.1 of the NDCC which allows the Tax Commissioner to collect sales taxes which are imposed by home rule cities.

The idea for this bill arose during discussions of how Grand Forks was going to pay for its share of the dike project, which will amount to anywhere from \$65 million to \$117 million. Some people in Grand Forks wanted to add a penny sales tax to raise the money to pay off the dike bonds.

However, about 40% of the sales tax collected in Grand Forks is paid by people from out of town and, as some of us pointed out, it did not seem fair to ask our friends from Park River, Grafton, Larimore, Lakota, Thompson and Mayville to chip in to help us protect Grand Forks, especially since the Governor had already pledged the state to pay for a portion of the federal fund match. We did not want to ask our friends in the region to pay for the dike twice.

Our problem as a city was how to raise a significant amount of money annually to cover the bonds for this large construction project. If we couldn't use sales tax, that left only a special assessment on property of somewhere between \$75 and \$400 a year per residential parcel. Again, in the search for fairness in paying for the dike, I felt that a tax on income actually earned would be fairer than a tax on property.

HB 1061 would make this possible.

The problem with the property tax system, as many farmers and ranchers know, is that you are taxing an asset which has value only in the future and only if it is sold. Owning a home does not mean you have money available to pay taxes on that home. If you sell the home you can pay the taxes, but a tax on income is a tax on value you have already earned in that year.

The rush of cities to impose sales taxes recognizes that you can't keep doing that. For instance, if you make \$100,000 two years in a row and buy a house based on that level of income and then the next two years you make only \$50,000, taxes on property remain at the high level while income is down. Perhaps a quarter of the homes in Grand Forks are owned by retired

people whose incomes are stagnant at the same time the market value of their home, and therefore their taxes, increases.

Home rule cities can already impose an income tax upon vote of their citizens, but it would be foolish to set up a whole new city bureaucracy to collect taxes that the state already knows how to collect.

HB 1061 does not impose an income tax on cities. It merely allows the residents of a city to impose an income tax on themselves. It authorizes the Tax Commissioner to negotiate agreements and charge a fee for the cost of collecting the tax.

If HB 1061 passes, there are still many questions to answer. Should it be a tax on wage earners in a city or on those who reside in the city? Would each city which imposed an income tax create their own method of taxing or would the Tax Commissioner design a universal plan? My own thought is that a city would vote a certain surcharge, say 5 or 10%, on the state income tax in the same way that North Dakota adds a 14% tax on federal returns to arrive at its state income tax.

This legislation is permissive and it is controlled by the Tax Commissioner. Nothing will happen unless:

1. a city wants to impose an income tax
2. the commissioner sets out methods of collection which can be enforced and which are fair and straightforward, and
3. the people of a city vote to impose the tax on themselves.

I know that many of you do not like the idea of government raising taxes, but if the flood of 1997 in Grand Forks taught us anything, it is that individuals by themselves cannot protect themselves against a major disaster.

So I hope you will not see this bill as some foreign government raising taxes on people, but giving people an opportunity to mobilize resources they believe they need to make themselves safe.