

**1999 HOUSE FINANCE AND TAXATION**

**HB 1363**

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1363

House Finance and Taxation Committee

Conference Committee

Hearing Date January 25, 1999

Tape Number	Side A	Side B	Meter #
1	x		40.2
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. DENNIS RENNER, DIST. 31, Introduced the bill. This is an attempt to keep more farmers from losing their home tax exemptions. I felt with the farm prices at the present level, many of the state's farmers or their spouses are seeking nonfarm income. When you look at the definition of "net income", it is the bottom line on Schedule F plus capital gains income plus you add in interest expense. If this total exceeds nonfarm income, you get to keep the exemption on your farm home. With farm prices at these low levels, there is not much of a net on Schedule F left, by adding in depreciation, this will help.

SEN. STEVE TOMAC, DIST. 31, Testified in support of the bill. After finding out that Rep. Renner had introduced a bill allowing depreciation be added into the determination of farm home exemptions, I suggested that maybe instead of adding on and adding on, we should just

take the bull by the horns and get to the heart of the problem. Sen. Tomac presented amendments to the committee which do two things. 1. on line 15 (b) compares gross farm income with off-farm income, it would no longer be necessary to add back in the interest and the depreciation, this would be a truer determination of who is actually a farmer under today's standards then it was when the law was originally implemented. The forty thousand dollar cap is still in place under this amendment. 2. The second part of the amendment, the underlined word "primarily", explained an instance which has taken place in Morton County, which illustrates the importance of the word "primarily". It is my understanding, that if you use your farm home today for anything but living, day care, selling seed corn, any business you have in mind no matter how incidental to the total farm picture, your house could be considered commercial property and taxed accordingly. I think the word "primarily" is the significant part of the amendment.

GRANT JOHNSON, ALMONT, ND Testified in support of the bill. See written testimony.

DENNIS GRANER, MORTON COUNTY Testified in support of the bill. Relating how they had remodeled the kitchen in their home to process and sell jams and jellies. Since doing this they lost the exemption on their farm home and were assessed \$1400 more for taxes. He felt that was too harsh for the income that is received.

BRIAN KRAMER, NORTH DAKOTA FARM BUREAU, Testified in support of the bill.

Would help keep farmers and keeping them productive. These small industries are an insignificant part of the farm package, but becomes a significant part of the tax picture. Support the amendments offered by Sen. Tomac.

MARK SITZ, NORTH DAKOTA FARMERS UNION, Testified in support of the bill. Have long been supporters of the farm home property tax exemptions. This bill speaks to a problem for some time. People are looking for any way to supplement their farm income.

REP. BELTER We have studied this now for two interim committees, currently right now, if one of these people would have decided to put the jam making facility into another building on that farm, it would be taxable, so where do we draw the line. They chose to put it in their home. Yet, the person across the street who could be an identical business, would have built a separate building would have been taxed. We have numerous commercial seed cleaning facilities, which are taxed, custom combining, portions of their shops are taxed. Where do we draw the line?

MARK SITZ As long as I have been around, property tax exemptions have always come up. It is a tough issue. I hope we can apply some common sense and resolve the issue. I would hope that farm income would be high and everything would be rosy out there, but that is not the case.

REP. WARNER Would there be any objection to making the tax proportional to the amount of the home that is advertised as a business, for instance, a fifty square foot kitchen and a thousand square foot home would have that portion that would be taxable?

MARK SITZ I don't know.

REP. CLARK Currently, if you have a business out of your home, a home office, part of the home is a business taxation, the rest of the home is residential. Could relate that to the farm house.

REP. GRANDE Asked if sales tax was charged at the farmer's market for the jams.

DENNIS GRANER Answered that there is no sales tax on food items, but they do have a sales tax permit.



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House Finance and Taxation Committee

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WADE MOSER, NORTH DAKOTA STOCKMEN'S ASSN. Testified in support of the bill.

The only problem would possibly be the farmer/rancher who has depreciated out all of his equipment, because he can't afford to replace it, probably won't see the true benefits of this bill.

We need to try to recognize and identify the legitimate farmers out there and make this available to them.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 1-25-99, Tape #2, Side A, Meter #35.7

REP. GROSZ Made a motion for a DO PASS.

REP. WARNER Second the motion. MOTION CARRIED.

12 Yes 1 No 2 Absent

REP. WARNER Was given the floor assignment.

## FISCAL NOTE

(Return original and 14 copies)

Resolution No.: HB 1363

Amendment to: \_\_\_\_\_

Requested by Legislative Council

Date of Request: 1/18/99

- Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

**Narrative:** HB 1363, if enacted, will allow more farmers to meet the income test to qualify for the farm residence exemption which may decrease the taxable value of affected counties, cities, and school districts.

While HB 1363 could decrease the value of taxable property of counties, cities, and school districts, it does not require a decrease in property taxes. Any change in property tax revenue will be the result of county, city, or school district decisions as to the level at which government services will be funded, and not as a result of the passage of HB 1363. This bill alone causes no fiscal effect to the counties, cities, or school districts. There will be an indeterminable decrease in the property tax revenue for the one-mill state medical center levy.

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>	0	0	0	<\$5,000	0	<\$5,000
<b>Expenditures</b>	0	0	0	0	0	0

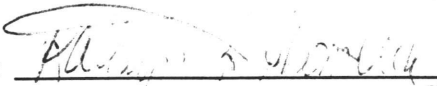
What, if any, is the effect of this measure on the budget for your agency or department:

- For rest of 1997-99 biennium: \_\_\_\_\_  
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- For the 1999-2001 biennium: \_\_\_\_\_  
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- For the 2001-03 biennium: \_\_\_\_\_

4. County, city, and school district fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed  
attach a supplemental sheet.

Signed: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 20, 1999

Phone Number: 328-3402

Please type or use black pen to complete

Date 1-25-99

Roll call vote # 1

### 1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1363

House HOUSE FINANCE & TAX Committee

Subcommittee on \_\_\_\_\_

Conference Committee

} Identify or check where appropriate

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

Action Taken Do Pass

Motion Made By Rep. Grosz Seconded By Rep. Warner

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

Total 12 1  
(Yes) (No)

Absent 2

Floor Assignment Rep. Warner

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)  
January 25, 1999 2:57 p.m.

Module No: HR-15-1136  
Carrier: Warner  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

**HB 1363: Finance and Taxation Committee (Rep. Belter, Chairman)** recommends **DO PASS** (12 YEAS, 1 NAY, 2 ABSENT AND NOT VOTING). HB 1363 was placed on the Eleventh order on the calendar.

**1999 SENATE FINANCE AND TAXATION**

**HB 1363**

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1363

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 2-24-99

Tape Number	Side A	Side B	Meter #
HB 1363 1	X		1636 - 2680
Committee Clerk Signature <i>Stella Wald</i>			

Minutes:

Sen Urlacher opened the hearing on HB 1363, A BILL RELATING TO INCLUSION OF DEPRECIATION EXPENSES FROM FARMING ACTIVITIES IN NET INCOME FOR PURPOSES OF THE FARM BUILDING PROPERTY TAX EXEMPTION & PROVIDE EFFEC. DATE.

Repr. Renner - This bill personally makes sense, and it is more important now, as prices are down. If income is coming down we should look at adding in this depreciation, it would help the farmer.

Patty Lewis \_ Farm Bureau - Support this bill.

Sen Urlacher - Fiscal note attached.

Wade Moser - Stockmen's Association. We support this bill. An adjustment that is reasonable.

James Moenk - COFA - We support this bill and think it is a good idea.

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Senate Finance and Taxation Committee

Bill/Resolution Number Hb 1363

Hearing Date 2-24-99

Sen Stenehjem - Depreciation on new or used equipment that the farmer would own, is that?

Barry Hasti - The depreciation would be on the equipment that is used in farming

Sen Stenehjem - How does that work?

Barry Hasti - They would look at the net income add back in interest expense also add back in the depreciation expense, that which was taken to arrive at that net income.

Sen. Wardner - I thought the depreciation was added in now. Where is the depreciation of equipment?

Barry Hasti - As I understand it, you start with gross income, subtract from that the expenses to generate that income, to arrive at net farm income, on which you would pay income taxes.

Among the expenses that are allowable, are depreciation of the machinery and equipment that used in the farming operation. Subtracted as an expense from the gross farm income, which then reduces the net farm income, and the net farm income is compared against the non farm income.

SEN. KINNOIN MADE A MOTION TO DO PASS AND SEN. CHRISTMANN SECONDED.

CARRIER WILL BE SEN URLACHER. VOTE IS 7-0--0.

Date: 2-24-99  
Roll Call Vote #: ①

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1363

Senate Senate Finance and Taxation Committee

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

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

Action Taken No Pass

Motion Made By Sen. Kinnoin Seconded By Sen. Christmann

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Sen. Urlacher

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



REPORT OF STANDING COMMITTEE (410)  
February 24, 1999 12:56 p.m.

Module No: SR-32-3426  
Carrier: Urlacher  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

**HB 1363: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).** HB 1363 was placed on the Fourteenth order on the calendar.

**1999 TESTIMONY**

**HB 1363**

## **HB 1363**

### **Adding depreciation and interest into Net Farm Income for house tax exemption qualification for Farmers**

My name is Grant Johnson from Almont, North Dakota. Recently our family moved a house onto my parents' farm just north of Almont. Our plan is to first farm with my father and eventually take over the farm. Sherilyn, my wife, teaches school in Almont.

Last year, we checked with our tax assessor to see what our taxes on the house would be, in the event our off-farm income exceeds our net-farm income. He informed us the tax bill would be approximately \$1300. We thought this figure was very high for a rural area (40 miles west of Mandan). We were informed by our county commissioners last spring that nothing could be done about the high tax assessment.

I'm sure there are others in our situation; moving onto an existing farm with their parents, but for the time being their net farm income would not be enough to pay expenses. Our off-farm income at this time is necessary to stay on the farm. We hope, if prices for our farm commodities improve and we can keep expenses down, our net farm income will be higher.

This bill introduced by Representative Renner will help by adding depreciation and interest to our net farm income. Why not really help and compare gross farm income to gross off-farm income, for the house tax exemption, leaving in place the limit for off-farm income.

We need incentives to get people back into rural North Dakota and this would be a step in the right direction. What we need in rural North Dakota is more families. When a family is willing to move back into rural North Dakota to farm, the local and state government should do all it can to help that family move to and stay in rural North Dakota and not make things more difficult for that family by adding another tax burden.