

2001 HOUSE APPROPRIATIONS

HB 1006

Commissioner - Commissioner's Division, Legal Division, Controllers Division, Information and Technology, Sales and Special Taxes Division, Income and Oil Taxes Division, and Property Tax Division. Pages 5 through 9 explains in more detail what each of these divisions provide, and their case load. The IT division is a new division in the department and they felt that this was important enough to elevate its importance and focus of technology.

Page 10 and 11 includes the executive budget request. They began with the existing budget as a base budget. They added in inflationary costs and known increases, including salary increases, funded a risk management premium (requested by OMB), postage, mailings, gas prices, motor pool increases, printing costs, etc. They did have new money for ITD enhancements - electronic filing and other technical enhancements.

Then they made adjustments to the budget from cost savings and improvements and they reduced their base budget with these funds. They have eliminated or unfunded since 1997 11 persons and reduced their budget. Now they are eliminating 1 account tech or auditor, eliminated the Multistate Tax Commission audit fee of \$270,450. They moved this fee to the optional adjustment section, and they unfunded the salary and wage line by \$58,000 - their only line with any flexibility. They had an optional budget that was not recommended in the Governor's budget that requested reinstatement of the Multistate Tax Commission audit.

Pages 13 and 14 list and outline and explain the major accomplishments of the Agency. They implemented a new validation system, implemented a new accounting system, implemented e-filing, implemented direct deposit system, established a withholding telefile system, implemented a sales tax webfile system, and enhanced the web site to include applications on line.

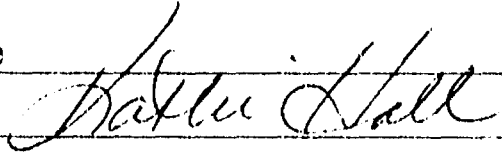
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1006

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 11, 2001

Tape Number	Side A	Side B	Meter #
01/11/01 tape #1	-	0 - 6222	
01/11/01 tape #2	0 - 1388	-	
Committee Clerk Signature			
			

Minutes:

The committee was called to order, and opened the hearing on HB #1006, the appropriation bill for the State Tax Commissioner, and also the Homestead Tax Credit.

Rick Clayburgh - State Tax Commissioner: Has written testimony, and Tax overview guide. He introduces his staff appearing with him in the room and available to the committee during the session.

Their mission is to administer the tax laws fairly and effectively and to install the highest degree of public trust. The tax dept. is the major revenue collecting agency for the state. Sales and use tax collects the most, and there are some small collections, such as music composition tax.

The budget presentation is written, and will be highlighted in the testimony. Page 5 lists the year 2000 gross collection totals. Page 6 lists the 7 divisions of the Office of the Tax

Page 15 lists their new objectives. The Electronic Document Management System (EDMS) is in partnership with ITD for scanning and imaging. They each purchased parts of the system. Hopefully other agencies can tie into this system at a lesser cost. This improves their customer service greatly, with faster process time and greater efficiency. They are planning to scan in new paper tax returns, so that they can appear on the computers and eliminate a lot of storage and dead time.

Rep. Skarphol: Are you going to be scanning in past year's tax returns?

Response: That would be too cost prohibitive. We will be scanning in old documents, but only as they are needed, when someone needs to view the past return.

Rick Clayburgh: continuing - By developing the EDMS system we will reduce staff and overtime staff by the scanning process and will reduce storage space needed.

Rep Koppelman: When stored electronically and destroy the paper, what is the backup system.

Response: There is a backup and recovery system process by ITS and the backup is in a vault or other safe place.

Rick Clayburgh: continuing - we also have a new objective of eliminating the older mainframe computer system and rewriting older applications.

On page 18 the critical issues of the budget are listed. The Office of the Tax Commissioner would like to restore the Multistate Tax Commission audit funding, they really don't want to loose that income. They also need to either lease space in the Gateway Building, or, if the Attorney General's office is allowed to move out of their extra space, they would like to move in there. If the Attorney General's office does not move, the Tax Commissioners office will need budget money to lease additional space. Finally, they would like to restore their unfunded auditor position.

Rep. Koppelman: Can you enlighten me on the Multistate Tax Commission Audit?

Response: North Dakota is a charter member in what is called a Multistate Tax Commission. It is a group consisting of approximately 34 states that look to creating a uniform system for establishment of tax uniformity of tax regulations, and try to provide an environment that is less cumbersome to tax payers of the various states as they deal with Multistate issues. We are currently a compact member which means we are a voting member that deals with all of the issues. The fees to continue to be part of that commission are in our budget. We also participate in what is called a nexus program. It deals with looking at companies that may have a nexus with out state, that means that we can go out and suggest that they pay taxes in the state of North Dakota. Those dollars to participate in the nexus program are still in our budget.

The multistate audit program, dealing with here in the budget request, deals with a number of states banding together, smaller states. We don't send our staff in to audit, but the Multistate Tax Commission sends its audit staff and legal staff, and goes in on behalf of the states and audits the company. If a company has some contact with North Dakota, say in New York, it would not be a company that the state would go audit ourselves, but we can say we would like to participate in that audit, and they would keep ND in mind as they do the audit, and look for ND issues, and then issue an audit assessment that addresses the various small states' issues. Does offer an opportunity to keep contact with these less prominent companies without us doing a specific audit.

Rep. Carlisle: You have used the phrase "revenue collecting agency" many times. With the modernization lately, is there any talk about your changing the agency department name to "Department of Revenue".

Response: That is an interesting question. Our department's name is the Office of the State Tax Commissioner. That is our constitutional, statutory name. We do do a lot more than just collect taxes. We are involved in a lot of issues that deal with revenue with the state of ND. We are the only state that is known as the Office of the State Tax Commissioner, and very few are known as the state tax department. Most agencies are known as the revenue agencies. We would like to change the name at some point.

Rep. Huetter: Do we collect sales tax on internet purchases? Do these taxes come back to your department?

Response: I cannot say as to any company specific because of confidentiality reasons. There are 2 situations, currently if a company operates outside of ND, and does not have operation or contact with the state of ND, they do not meet the requirements in Quill v. State of ND for significant nexus for them to collect sales and use taxes for their customers. That is a significant problem for the states, and we may be looking at this during the session. Some companies do collect taxes and remit taxes to the state. They do this out of good will, by agreement, voluntary agreement to pay. Not enough companies do this, and we estimate that by 2004 it will be approximately 27 million dollars lost in sales tax to the state of ND. Remote sales are a factor in our projected revenue.

Rep. Glassheim: Are you going to propose suggestions/thoughts/resolutions as to the internet sales tax concerns that we can send to Congress?

Response: We are working on a couple things. First our tax study which was funded in the last biennium and have a report on our tax structure that makes sense, and have suggestions and propositions. We do talk specifically about the streamline sales tax system. There should also be a bill in this session to allow the state of ND to participate in putting together model

legislation for this streamline system by 2005. We have been working with Senator Dorgan in this area, and Congress is working on that issue. I don't know if this legislature needs to do anything particular.

Rep. Glassheim: As to delinquent taxes, what is the magnitude of non-collectible or delinquent taxes?

Response: It is difficult to get exact numbers, but the difficult to collect taxes are about 8-10 million dollars. This is a significant amount, but includes those who have filed bankruptcy, just uncollectible, have moved out of state, and may never have the money to pay.

Rep. Glassheim: Could you collect these with an extra person?

Response: Probably not on some of these. These are uncollectible, and we work on these collections in house and out of house. Before we use an extra person, it would be requested that the department be able to use a collection company for instate collections.

Rep. Glassheim: The corporation tax collections are way down, why?

Response: This is a very difficult issue, and not a state unique problem. There is a downturn in corporate income tax profits. The downturn we have seen is due to 5 issues, very hard to explain and very technical. Two of the most prominent is the fact that there are more subchapter S, limited liability, and limited liability partnership company filings. These are created by the IRS and Congress to allow pass through taxes to the owners of the corporations. The pass through entities pass all profit and loss to the owners who file a personal return only, and not both a corporation and individual return.

The other issue involves corporations who file estimated tax payments and final payments. When they put their estimates together, they may have overpaid, and when they file the final returns, they file for a refund. We have had negative corporate collections at some times

and pay more refunds than we collect. It is not the lack of enforcement or the lack of collections, it is just the way it lawfully goes.

Rep. Skarphol: On the out of state sales and tax issue, what assurance do we have that this money is returned to the state of ND?

Response: On instate sales we can catch non payments through audits. If it is an out-of-state company we may not have the ability to know that they have collected a tax from our residents. We cannot tell if they have charged a tax. The tax department can check to see if a particular company has agreed to pay taxes, and the multistate tax commission audit tries to catch some of these companies who have collected taxes but not paid them back to the state.

Rep. Skarphol: How many IT employees does your department have?

Response: Our IT department has data entry persons, and the data entry coordinator is IT also. Then we have 5 other persons, the division director, one who deals with the mainframe application and ITD, one who deals with department hardware and needs, one who runs all of our reports and gets information on a daily basis, and one who is responsible for internet, intranet, and departmental needs.

Rep. Skarphol: Where do the part time employees show up in your budget?

Response: They appear in the salary and wage line, not contracted services, we have that budgeted, at about \$578,000, this has been a relatively stable number, but may be reducing over the next few years as they use less temporaries.

Rep. Huetter: Will you see a reduction in staff due to technology?

Response: Technology may not reduce the number of staff, but it will make them more efficient, more knowledgeable, and will use less temporary employees.

Rep. Byerly: A possible question that may come to you in the Senate is why you can't lease space in other locations of the state at less cost than in Bismarek. Technology may allow you to decentralize. What is your response?

Response: We have looked into this, and telecommunication. We have three persons that telecommute in ND. One lives in Williston, two live in Grand Forks. We have offices in Minot, Dickinson, and Fargo. We have 17-18 persons located outside of the Bismarek tower. As we get into more technology, we certainly can, and can look at this moving and decentralizing. This shouldn't create significant increased costs. It would take some planning, but his office could do it. Some functions of the department cannot do this, it just would not be practicable, and may duplicate some costs to do so.

Rep. Byerly: The legislature keeps talking about the revitalization of rural ND. The only thing in ND that seems to get bigger is government. And if we were to do some disbursal, it seems that processing centers would work well..

Rick Clayburgh: I would like the opportunity to further discuss the budget at any time.

Rick Clayburgh: Our office is concerned about SB 2053, that adds some duties to the State Tax Commissioners office. We have not taken any position on this bill, and have not been a party to this bill. However, there may be some budgetary implications to our office.

Rep. Glassheim: The rate of interest paid on the corporate refunds is listed on page 26 (red book) at 1% per month. Can we decrease this refund rate of 12%?

Response: I certainly hope the state is not being used as an investment fund. Last session the rates were equalized at the rate of 12% - the rate collected on unpaid taxes, and the rate paid on overpaid taxes.

Hearing adjourned on this section of HB 1006.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1006- Homestead Tax Credit

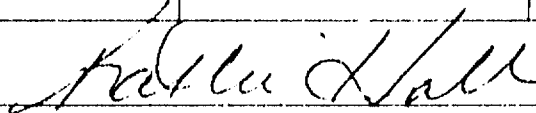
House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 11, 2001

Tape Number	Side A	Side B	Meter #
01/11/01 tape #2	1255-1388		

Committee Clerk Signature



Minutes:

The committee was called to order, and continued the hearing on HB 1006 - Homestead Tax Credit section.

Charles (Chuck) Krueger: State Supervisor of Assessments - provided written testimony. The property tax division of the office of Tax Commissioner administers the Homestead Property Tax Credit Program for qualifying senior and disabled persons. There are three parts to the property tax relief program. The first offers a graduated reduction in the taxable value, and resulting taxes, of the applicants homestead. The second makes a direct payment to the renters to refund the difference when 20% of the rent - the property tax portion- exceeds 4% of the applicant's annual income. And the third allows the recipient of a homestead credit to receive credit for the annual installment of special assessments. However, a lien is placed upon the property for the amount of the credit plus interest.

A qualifying senior citizens must be over age 65 of permanently disabled, they must have an adjusted income of less than \$14,000, and has a limit of the amount of assets owned. The written testimony notes the history of the property tax credit qualifications.

The legislature has fully funded the property tax credit since 1973, and the general fund appropriation in the past budget appears to be sufficient to meet the current needs. They do expect some increased expenditures because of the increased income level this year. The graduated levels have changed from 1993 (\$13,500) to 1999 (\$14,000).

Rep. Glassheim: The numbers of qualifying applicants has decreased, although the number of aged persons in North Dakota has increased. Can you explain?

Response: Part of the reason is that the income levels of the population exceed the statutory qualifications to meet this credit.

Chuck Krueger: The attachments to the written testimony include a listing of the past homestead credit payments, for renters and homeowners, and the schedule used to calculate these figures. See example for year 2000.

Jerry Hjelmstead: On behalf of the North Dakota League of Cities. I wanted to testify in favor of the ND Homestead Credit program.

The chairman closed the hearing on this bill.

