

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

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ROLL NUMBER

DESCRIPTION

1055

2001 HOUSE FINANCE AND TAXATION

HB 1055

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1055

House Finance and Taxation Committee

Conference Committee

Hearing Date January 17, 2001

Tape Number	Side A	Side B	Meter #
2		x	169
Committee Clerk Signature <i>Janie Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing.

REP. ANDY MARAGOS, DIST. 3, MINOT, Introduced the bill in order that we may once again address the idea of decoupling our state income tax from the federal income tax. I think this particular part of our tax policy is outlived and counter productive, as long as it remains revenue neutral. We are one of the smallest true rates of income tax of all of the states. Perception is ninety eight percent of reality, and when people see the tax rate of North Dakota at 14%, too many of them do not drop down to the asterisk, which explains to them that it is only 14% of our federal liability. There is no excuse for that. I would like to protect us as a low tax rate when we are competing for economic development.

RICK CLAYBURGH, STATE TAX COMMISSIONER, Testified in support of the concept of this bill. We are in the process of finishing our tax study and in that the tax committee makes

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a discussion about the issue of decoupling. The majority of the citizens of North Dakota feel a flat rate of 14% in federal liability is fairly simple and we have done the best we can despite the changes which have occurred the last couple of years by this legislature. We continue to try to maintain that spirit of the law in keeping the short form and have added a schedule for those few taxpayers who require the adjustments you have added. He gave an example of a company looking at North Dakota and other states to come to North Dakota. The company made a comment about the tax rate. He was not interested in subjecting his employees into a state with a 15% income tax. Governor Schaefer spent time explaining to him what the portion of the federal liability meant. But he still had a difficult time, conceptually, coming back with questions. We finally took the tax form and came up with a model employee tax form, then were able to show the president of the company that their employees would have been paying about two thousand dollars less by locating in North Dakota. We used a seventy thousand dollar salary at that point. This took a lot of time and effort, and that was only one company. I really think, the perception, in reality, does not need to be in our way. I certainly appreciate the concerns some of the legislators have about the safety of coming off 14% of federal liability then a more accurate rate of 3.2 to 5.4%. I would suggest that the legislature look at our North Dakota form, we have a short form and long form, they are two distinct statutes that do not support each other, in fact, they conflict with each other. I would suggest that the legislature look over this in the interim, and review both the short form and long form and create a single tax form in North Dakota, one which maintains the spirit of the short form, simplicity and schedules to allow for the more complex filer.

REP. DROYDAL You mentioned a figure in your testimony of three point something up to five, I am looking at the bill and it says 2.1%.

RICK CLAYBURGH It is 2.1 to 5.1%

REP. HERBEL The person that has an income of fifty thousand dollars, will this impact his liability any different than under the present form?

RICK CLAYBURGH In my understanding the way the bill was drafted, this would not have a noticeable effect to the individual taxpayer. It would be revenue neutral down to the individual taxpayer, for the most part. The taxpayer would virtually pay the same tax with this system.

REP. HERBEL Have you done a study at what fiscal impact there would be with President Elect Bush's tax cut?

RICK CLAYBURGH Anytime Congress does any tax changes, our fiscal analysts will review those both on behalf of the tax administrators and our congressional delegation provides them information about the impact to the state of North Dakota. We have not addressed the details yet on President Elect Bush's tax plan. We don't know if they are available at this point. I forgot to mention, that if Congress raises the tax base, North Dakota state income tax increases without any of you voting on it and without the Governor signing it and it becomes an increase.

REP. RENNERFELDT I have seen this bill many times over the years, you say it would be neutral without shifting any taxes, don't you think it would be much easier down the road to tweek this, don't you think it would be possible to manipulate the tax with this bill?

RICK CLAYBURGH There is always a possibility, but I have great faith in the elected leaders in the state of North Dakota.

REP. SCHMIDT Why is this bill revenue neutral and the one two years ago wasn't?

RICK CLAYBURGH The choice in the decision of the bill sponsor, two years ago, put that in to try to address an inequity in our tax law. That was probably the single issue which led to the defeat of the bill. This is a clean bill which is only focusing on the decoupling.

JOHN WALSTAD, ATTORNEY FOR THE LEGISLATIVE COUNCIL, Explained the history of the bill. All the draft intends to do is back up one line on the federal tax return, from your federal tax liability to your federal taxable income. The trouble is, between those two lines on your federal return, we run through all the federal tax tables. To make this federally neutral, what we had to do in the bill draft, was to put those federal tax tables in reverse, multiply all of the federal rates by 14%.

REP. MIKE TIMM, DIST. 5, MINOT, Testified in opposition of the bill. Through the years, even when I was chairman of this committee, we would see these type bills come in in different forms. I remember back when we did have the brackets, there were always attempts to raise those brackets, raise the percentages. When we decided to adopt the type of tax that we have, we settled on 7.5%, it has gone up to 15% over the years. What you as a committee and we as legislators need to weigh on this is, do we want to waive the easability of filling out our tax forms for our citizens now, or do we want to cater to the people from outside our state, who don't seem to understand what the percentage of our tax liability means. They want to read something else into it. That is the same story we have been getting every time this bill comes forth, the preception people have about our taxes. Are we changing because the citizens of North Dakota are complaining about our high taxes, or the way the form is, or what the percentage is; or are we changing because somebody says the perception of us is really bad because we have this high tax.

Don't we normally change the law because some citizen of North Dakota thinks the law should be changed. I think that is what we need to look at.

REP. DROYDAL How do you respond to proponents of this legislation, that by leaving it coupled with federal, it would be an automatic increase or decrease without the legislature taking effect.

REP. TIMM That has happened over the years. The federal tax liability has gone down over the years, so our tax liability has gone down, so actually the citizens of North Dakota have been getting a small tax break. It is unfortunate that we lose several million dollars per biennium because of that. My response to that is, if we want to make up the income, we raise our percentage in another session of the legislature. If you have an employee and you take out income tax out of his wages, like I have, and you look at the tax table from the year before, it goes down a couple bucks, it is called indexing. We are indexing for our citizens.

REP. SCHMIDT You said the people of North Dakota should have a voice on it. Do you think this should be on an initiated ballot, so the people of North Dakota could vote on it.

REP. TIMM No, I didn't say the people don't have a voice in it. I said the people haven't expressed any dissatisfaction with our present system. I have never had anybody come up to me and say "My God can't you change our income tax system in this state". I have never had anybody say that, I think it is pretty simple for them to figure out their income tax.

JOE WESTBY, NORTH DAKOTA EDUCATION ASSN., Testified in support of the bill. I am for simplicity, I like the way we do it now. But, I have a concern, if the federal government reduces the federal income tax for all of us, then the revenue to the state of North Dakota will be reduced. We seem constantly to struggle to keep the revenue up to support the programs the state

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desires to have. If we don't fix it before the federal government reduces the federal income tax, then we have a problem. Or, if the federal government does reduce the federal income tax, then do we have enough time to come back to the next legislative session and make this change. We need to protect the revenue flow we have now.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-19-01, TAPE #1, SIDE A, METER # 4390

REP. DROYDAL Made a motion for a **DO PASS**

REP. LLOYD Second the motion. **MOTION CARRIED.**

8 YES 7 NO 0 ABSENT

REP. WINRICH Was given the floor assignment.

FISCAL NOTE
 Requested by Legislative Council
 03/12/2001

REVISION

Bill/Resolution No.: HB 1055

Amendment to:

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.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$472,000			
Appropriations			\$472,000			

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

HB 1055 creates a new "short form" that utilizes rates and brackets that are approximately revenue neutral with current law.

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.*

The Tax Department estimates additional administrative costs (operating expenses) totaling \$472,000 for the 01-03 biennium would be incurred.

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	03/12/2001

FISCAL NOTE

Requested by Legislative Council
12/14/2000

Bill/Resolution No.: HB 1055

Amendment to:

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.*

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	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations			\$240,000			

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

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The Tax Department estimates additional administrative costs (operating expenses) totaling \$240,000 for the 01-03 biennium would be incurred.

Name:	Kathryn L. Strombeck	Agency:	Tax Department
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Phone Number:

328-3402

Date Prepared: 01/16/2001

