

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SEN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1381

2001 HOUSE FINANCE AND TAXATION

HB 1381

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1381

House Finance and Taxation Committee

Conference Committee

Hearing Date January 31, 2001

| Tape Number | Side A | Side B | Meter # |
|--|--------|--------|---------|
| 1 | | X | 1,820 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Jamie Stein</i> | | | |

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing and read the fiscal note.

REP. SCOTT KELSIL, DIST. 11, SOUTH CENTRAL FARGO, Introduced the bill as the prime sponsor. It was only after I got into this committee, that I realized I was in a long line of people who are asking for tax credits. This bill was introduced to help a number of sectors of our economic infrastructure. This bill will extend an income tax credit to any employer who either provides child care facilities on site or otherwise pays the cost of an employee's child care burden. It will make it a little easier to recruit and retain employees by giving them an option of offering this as a perk. It also helps our economic development organization recruit and retain businesses to our state by giving them another tool or incentive by which to attract them. It eases the burden of child care costs on those employees. It helps increase the quality of child care, by making more money available to providers who are then able to recruit and keep quality staff. Section 1 of the bill gives the tax credit of twenty five percent of the employee's net cost of

Page 2

House Finance and Taxation Committee

Bill/Resolution Number HB 1381

Hearing Date January 31, 2001

operating a child care program, used primarily by dependent's of the taxpayer's employees or

fifty percent of an employer's net cost of any monetary, in kind contribution toward child care.

This also includes two or more employers who jointly contribute in the manner described.

This helps our goal, by keeping young people in our state.

REP. DROYDAL Currently, the expenses for providing day care, that is a legitimate deduction on the internal revenue code, isn't it?

REP. KELSH To the best of my knowledge, it is.

DON MORTON, GREAT PLAINS, Testified in support of the bill. Gave a background of what is happening at Great Plains as far as creating a business climate that is so favorable. We have two thousand key members around the world, one thousand, which are located in Fargo, those thousand key members represent two hundred forty seven small towns within our state. Over ninety percent of our employees are North Dakota natives. On December 21, Microsoft announced their intention to acquire Great Plains. The chairman of the board decided that Great Plains should be acquired by Microsoft, so we agreed to be acquired. We are excited about this and I think the state of North Dakota should be very excited also. Microsoft bought us for one reason, and that is to help their top line growth. They are a very good business model and generate lots of cash. They have forty billion in cash. Our charge is to provide growth. Great Plains, currently, is a three hundred million dollar company. Microsoft will make the investments for us to grow. It is bills like this that help that very favorable business climate. One of the things we want to do at Great Plains, we have a sizable campus on the south side of Fargo, we just completed our second building, and will start our third soon. We voice a strong support for this bill.

REP. CLARK What is the average age of your employees?

DON MORTON Average age is thirty two years old.

PAUL WOHNOUTKA, EIDE BAILLEY, ALSO A REPRESENTATIVE OF GNDA,

Testified in support of the bill. We feel there is a need to free up employees for the work field. The cost of day care now days is astronomical, some families are paying eight hundred to one thousand dollars per month for day care. This bill will help employers to either provide day care in their facility or those that donate to a day care center can get a credit on their tax return. There are so many businesses now, who are operating in a Sub Chapter S Corporation status, or various types of partnerships, and being taxed on individual returns. As such, it is felt to have it as a credit on the individual short form. Otherwise, it really eliminates a lot of employers out of the credit, so it doesn't give them an incentive to help with the child care situation.

JOSEPH BECKER, STATE TAX DEPARTMENT, appeared to answer questions.

Stated it can be used on the long and short forms.

REP. CARLSON There are various entities where the taxes flow to the individual's form, is that why the short form for the individual is included?

JOSEPH BECKER No, I think an employer can use it as a credit, but some employers will be in the form of a partnership or other pass through entity, they don't pay a tax. There is a provision to let that flow through to the owners who are taxpayers.

REP. CARLSON They own the business, but they aren't filing as a business, and are letting it flow through to their personal income tax?

JOSEPH BECKER The employer could be a partnership, that entity is the employer, but partnership does not file an income tax return, because that entity does not pay an income tax.

Page 4

House Finance and Taxation Committee

Bill/Resolution Number HB 1381

Hearing Date January 31, 2001

That income that they receive, flows through to their owners, and hence, there is a provision here that will allow this credit to be computed, but then it will flow through to the owners. The owners will then claim it on their perspective returns.

REP. CARLSON Is that common or uncommon?

JOSEPH BECKER That is very common.

REP. CARLSON With the credit there is a cap which does not exceed twenty thousand dollars, but yet, we have a fiscal note that says it is undeterminative. Why would this be undeterminative?

JOSEPH BECKER I don't have a handle on that at all. I guess we don't know who would take advantage of this.

REP. GROSZ Going back to the past records, on an S Corporation, where there is double taxation, do you only take credits as a S Corporation level and not through shareholders?

JOSEPH BECKER A regular corporation would pay taxes and his credit would then be paid by the corporation, an S Corporation is a pass through entity like a partnership, therefore, that entity does not pay.

DAVID MARTIN, PUBLIC AFFAIRS MANAGER OF THE CHAMBER OF

COMMERCE, FARGO/MOORHEAD Testified in support of the bill. See attached written testimony.

JACK MC DONALD, REPRESENTING THE YMCA'S OF NORTH DAKOTA, Testified in support of the bill. See attached written testimony.

KURT CRUEN, OWNER OF A DAY CARE CENTER, GRAND FORKS, Testified in support of the bill. We are a for-profit center, which means we only collect income from the

cushion that come there through the parents. We also are not available for the food program, or the foster grandparents program or any outside sources whatsoever, other than the income we derive from the tuition of the parents. He stated he helped put together the finishing touches of this bill. He stated he is in favor of the bill because child care issues are affecting employers' abilities to recruit and retain a qualified workforce. That is also a qualified workforce in the day care industry as well. This child care tax credit would create a partnership between private and public entities and address these issues. This bill also equates it out to whether it is a large child care facility or a small child care facility or a home based day care facility. These monies would become available to everyone. It lessens the burden of worry of the parent who has a child in child care. As far as the fiscal note, it will be very minimal.

BARB ARNOLD TANGESDAL, NORTH DAKOTA ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN, Testified in support of the bill. See attached written testimony.

LINDA REINICKE, PROGRAM DIRECTOR FOR CHILD CARE RESOURCE & REFERRAL IN WESTERN NORTH DAKOTA Testified in support of the bill. See attached written testimony.

JIM OLIVER, EXECUTIVE DIRECTOR OF THE WAHPETON CHAMBER OF COMMERCE Testified in support of the bill. Stated he has been involved with the child care issues in his town for the last four years. It isn't going away. This bill in the last session, if it would have passed, would have made a difference of a new child care facility in their community.

REP. KELSH Stated that when the bill was drafted, there was some language that needed to be incorporated, so he had amendments drafted to fix it.

PAUL WOHNOUTKA Explained what the amendment would do. Instead of allowing a credit up to fifty percent of the taxpayer's tax liability, they wanted to insert twenty five percent for the tax liability.

Page 6
House Finance and Taxation Committee
Bill/Resolution Number HB 1381
Hearing Date January 31, 2001

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-13-01, TAPE #1, SIDE A, METER #5417 TO SIDE B

REP. KELSH Presented amendments which would replace the number 50 with 25, it removed

Lines 17 to 19. Rep. Kelsch gave an overview of the bill again.

JOSEPH BECKER, STATE TAX DEPARTMENT Appeared to answer questions. He stated he did not know what the fiscal effect would be because it would depend on how many people used this tax credit.

REP. KELSH Made a motion to adopt the amendments as presented.

REP. NICHOLAS Second the motion. **MOTION CARRIED BY VOICE VOTE.**

REP. WINRICH Made a motion for a **DO PASS AS AMENDED.**

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

8 YES 7 NO 0 ABSENT

REP. WINRICH Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
01/23/2001

Bill/Resolution No.: HB 1381

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 | | | | | | |
| Appropriations | | | | | | |

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 1381 provides income tax credits to employers for contributions or support of childcare programs.

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.*

The fiscal impact of HB 1381 cannot be determined.

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.*

| | | | |
|----------------------|----------------------|-----------------------|----------------|
| Name: | Kathryn L. Strombeck | Agency: | Tax Department |
| Phone Number: | 328-3402 | Date Prepared: | 01/30/2001 |

Date: 2-13-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1381

House FINANCE & TAXATION Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number 10199.0202

Action Taken Do Pass as amended

Motion Made By Rep. Winrich Seconded By Rep. Schmidt

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-------------------|-----|----|
| CARLSON, AL, CHAIRMAN | | ✓ | NICHOLAS, EUGENE | ✓ | |
| DROVDAL, DAVID, V-CHAIR | | ✓ | RENNER, DENNIS | ✓ | |
| BRANDENBURG, MICHAEL | | ✓ | RENNERFELDT, EARL | | ✓ |
| CLARK, BYRON | ✓ | | SCHMIDT, ARLO | ✓ | |
| GROSZ, MICHAEL | | ✓ | WIKENHEISER, RAY | | ✓ |
| HERBEL, GIL | | ✓ | WINRICH, LONNY | ✓ | |
| KELSH, SCOT | ✓ | | | | |
| KROEBER, JOE | ✓ | | | | |
| LLOYD, EDWARD | ✓ | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) 8 No 7

Absent 0

Floor Assignment Rep. Winrich

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

REPORT OF STANDING COMMITTEE

HB 1381: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (8 YEAS, 7 NAYS, 0 ABSENT AND NOT VOTING). HB 1381 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "fifty" with "twenty-five"

Page 2, line 9, replace "fifty" with "twenty-five"

Page 2, remove lines 17 through 19

Page 2, line 20, replace "5" with "4"

Renumber accordingly

2001 TESTIMONY

HB 1381

