

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

13999

2001 HOUSE FINANCE AND TAXATION

HB 1399

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1399

House Finance and Taxation Committee

Conference Committee

Hearing Date January 31, 2001

Tape Number	Side A	Side B	Meter #
I	X		383
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. DROVDAL, VICE-CHAIRMAN, Opened the hearing, and read the fiscal note.

REP. AL CARLSON, DIST. 41, SOUTHWEST FARGO Introduced the bill as the prime sponsor. He called this a decoupler bill from income tax. This bill has the basic idea to decouple us from the federal tax. Right now, you are familiar with our federal tax which is figured on fourteen percent of your federal incumbrance. This bill, makes a major shift in that, it moves everything up one line. This bill is a pure flat tax. There is one rate in the bill. The purpose of the bill is to move it to your taxable income line of the income tax form you fill out to the federal government. In the past, there has been opposition to this idea, for one basic reason, it wasn't that they didn't like the concept of decoupling, the proponents of the bill said, anything that would be a rate that low, is just plain too easy to rate. I have a hard time understanding that. The intent of this bill was to make it revenue neutral. As you can see, there is a positive fiscal note of about nine hundred thousand dollars. If we are going to look at a decoupling bill, this is

the time we should be doing it. Not only has President Elect Bush, made his platform that he will reduce the federal income tax, even Allen Greenspan, from the Federal Reserve, has also endorsed the plan for parts of his tax cut proposal. So the reality is, if the federal income tax incumbrance does reduce, so does the tax at the state level.

Rep. Carlson submitted a handout relating to comparison of tax liabilities. He stated John Walstad of the Legislative Council will talk about all of the workings of the bill and also will present an amendment to the bill. See attached handout.

REP. HERBEL Why is this better then the bills we have already looked at?

REP. CARLSON The other bill is designed specifically, to make everyone pay what they paid yesterday. This bill does not use that approach. The more you make, the more income tax you pay.

REP. KIM KOPPELMAN, DIST. 13, WEST FARGO, Testified as a co-sponsor of the bill. See attached written testimony.

JOHN WALSTAD, ATTORNEY, LEGISLATIVE COUNCIL, Appeared before the committee in a neutral position. He reviewed the bill and presented a copy of the 1040 tax form so that committee members could follow the changes. This change would avoid a change of the state because of what Congress does. He also submitted an amendment to the bill. He stated the problem with subtracting these amounts from taxable income before determining the tax is, non residents who work in North Dakota for a portion of the year, and earn a portion of their annual income here, have a tax liability now, subtracting these amounts off the top, unduly, favors non residents, as they only report the income earned in this state. This would have the effect of zeroing out income for a lot of non residents, so the amendment will deal with that.

REP. DROYDAL Related to HB 1055 which is another decoupler bill, does HB 1055 start at the same point as HB 1399 as far as multiplying against federal liability?

JOHN WALSTAD Yes, the starting point is the same, it is the line 39 number which is taken off, then in HB 1055, that number is run through what are essentially, the federal brackets times .14%, it is the bracket now in place. If federal changes are made, the brackets in that bill will not adjust accordingly.

REP. DROYDAL Asked, when it comes to farmer's property tax, their homes are not taxable, would we include the property tax abated on all of their lands of which the farm is actually located in, or how do you determine that?

JOHN WALSTAD If a farmer's residence is not located on the land that farmer owns and farms, there could be a problem, but, the way it is worded, property that includes the primary residence, as you know, the property tax exemption for farm residences is stated as, for an exemption, you have to be on land that is contiguous to the farm land.

REP. DROYDAL If my farm was non taxable and I had five quarters contiguous around that farm house, I could take the deduction from the property tax on the whole five quarters?

JOHN WALSTAD Yes, that is the way I would envision it this would work.

REP. WINRICH Why are we taking out the two lines on page two, about the standard deduction of eight thousand for a couple and four thousand for an individual?

JOHN WALSTAD That is the language which I was talking about which unduly benefits non residents. The credit in this amendment is to take the place of this eight thousand or four thousand dollar deduction, and the reason is, if a non resident earns seven thousand dollars of taxable income in this state during the tax year, the eight thousand dollar deduction on a join.

return wipes out that income, and that person pays nothing for the state of North Dakota. That is removed by the amendment, and instead, a credit is allowed for property taxes paid in one form or another. If that non resident with seven thousand dollars of income in this state during a tax year, did not pay rent, property tax or mobile home tax in this state, that full seven thousand dollars would be subject to the three percent tax.

REP. RENNER To take advantage of these exemptions, would that take care of the state tax return?

JOHN WALSTAD It would add another line to the short form, to indicate the credit which you are entitled for. There probably would be some documentation required or a worksheet required.

REP. RENNER This amendment takes place of the standard deductions, so North Dakota taxpayers would not have a deduction, this would be for the out of state

JOHN WALSTAD Yes, the A, B, C items are not exclusive. If a person rented for ten months of the year, bought a home, paid property tax for two months of the year, both of those items could be combined to qualify for this credit amount.

REP. RENNER I like this idea, but will it complicate the filing of the tax returns by the citizens?

JOHN WALSTAD It is more complicated then just subtracting eight thousand and four thousand, but I don't think it is a great problem. With regard to rent paid, there might be a compliance complication. There might be a need to have some kind of a statement from a landlord.

RICK CLAYBURGH, STATE TAX COMMISSIONER, Testified in a neutral position.

Commented on the potential of getting around the property tax, you could prorate the deduction to the amount of income derived in North Dakota. If an out of state resident derives ten percent of their income from North Dakota, they receive ten percent of the deduction. On the issue of the effective date of the bill, it is effective for taxable years beginning after December 31, 2000, that means it would be effective for this year. However, as far as employer's are concerned, we would have to create schedules, this would no longer just be based on a portion of the federal liability. It does have an effect, because if their tax burden shift amongst individuals, there would be some adverse effect to taxpayers at the end of this tax year, because they were withholding under one set of rules and it may not be sufficient withholding. It may have to become effective for next tax year. Regarding the fiscal note, we want to point out, I visited with the House Majority Leader, you will note at the bottom of the fiscal note, this is a preliminary forecast based on interest, more than anything. We have been asked to go forward and provide that additional programming. It will take some time, more than just the five days. It will be based on a synopsis of what an average taxpayer takes as deductions, we need to do it more specific to what has been the activity, in order for us to do that, we need to take computer runs.

REP. DROYDAL Asked if they would also take a look at HB 1055 to see if we have the accurate figures there.

RICK CLAYBURGH Stated that bill is currently revenue neutral down to the individual taxpayer.

REP. DROYDAL Stated he does computer work where the computer automatically withholds the tax, in HB 1055, I wouldn't have to change a thing with the computer, it would be the exact same thing, is that correct?

RICK CLAYBURGH No, in any of these changes, we are going to change it, no matter what you do, there will be some type of adjustment.

REP. KELSH Under the provisions of this bill, do you have a ballpark figure or threshold on the high and low level where a person would realize savings or if they are paying higher taxes than before?

RICK CLAYBURGH The sheet which you all have which was put together by the Tax Department, the two comparisons under 37 S and then HB 1399, we just went in and picked an arbitrary taxpayer, we picked a couple, married and two children and tried to figure what their tax would be in North Dakota, and a single person with no dependents. You can see, that it would probably, roughly, be about forty five thousand dollars for a married couple filing jointly, where it would be that point, where it would not affect them negatively or positively. Probably more in the range of seventy nine thousand dollars where it would affect them. It changes just a little bit, it is a rough ballpark.

REP. RENNERFELDT Wouldn't it be easier to allow a trigger with the fourteen percent, wouldn't it be easier to understand in their business and their life?

RICK CLAYBURGH It depends, we have to know what the change is going to be and what that trigger is going to be, I certainly appreciate the comments Rep. Carlson made, if the feds change the rate, that the Tax Department would make the determination what would be revenue neutral. There are some policy discussions in that, what is revenue neutral. There would have to be guidelines as to what we would do. I am not interested in being the one who is perceived to raise the tax rate. I learned very quickly from Rep. Strinden, that you are the policy making branch of government.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-19-01, TAPE #1, SIDE A, METER #2189

REP. CARLSON Explained the similarities between HB 1055 and HB 1399. Both deal with the percentage based off the taxable income off the federal form. 37 S Tax, is basically, HB 1055. The rates in HB 1055 match exactly what you pay now on federal tax. HB 1399 is the flat tax. Up to one hundred and ten thousand dollars, you pay 2.7%. Over that amount, you pay 3.7%. If you look at HB 1055, a single person, up to twenty seven thousand, you pay 2.10%, twenty seven thousand to sixty five thousand, you pay 3.92%, it is a progressive tax. It mirrors the federal government on how they do taxation.

Committee members brought up the fact, what would happen if Congress cuts taxes, there could be the possibility we would have to have a special session. They also felt they would have to go with a plan that the people of North Dakota would understand and accept.

REP. HERBEL Made a motion to adopt amendment #10529.0302

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

REP. HERBEL Made a motion to adopt amendment #2 relating to the 2.7% & 3.7% rates

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

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

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

8 YES 7 NO 0 ABSENT

REP. GROSZ Was given the floor assignment.

FISCAL NOTE
 Requested by Legislative Council
 04/26/2001

Bill/Resolution No.:

Amendment to: Engrossed
 HB 1399

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.*

If enacted, Engrossed HB 1399 with Conference Committee amendments is approximately revenue neutral.

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.*

HB 1399 is expected to increase the administrative expenses for the Tax Commissioner's Office which is being addressed by the Conference Committee on HB 1006 (Tax Commissioner's appropriation).

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
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Phone Number: 328-3402

Date Prepared: 04/26/2001

