

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
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ROLL NUMBER

DESCRIPTION

1413

2001 HOUSE FINANCE AND TAXATION

HB 1413

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1413

House Finance and Taxation Committee

Conference Committee

Hearing Date February 7, 2001

Tape Number	Side A	Side B	Meter #
1	X		48
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

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

**REP. RICK BERG, DIST. 45, FARGO,** Introduced the bill as the prime sponsor. He felt this bill is the most profound bill in all of his years in the legislature. This bill when it was first passed, was on the long form. However, no one has used this because of it being on the long form. This bill takes the money and puts it directly into the businesses. What separates this bill from all of the other economic development ideas, is the money is injected right into the business, it will turn that money to create jobs and grow that business. This is where we need to go with economic development. This has been on the statutes since 1993, but on the long form. In Section 1, we are moving it to the short form. If someone has a project they want to raise money for, they would go to the E D & F director, the director would tell them to go out and raise the money. When they raise the money, those investors will receive a tax credit. It is limited to two hundred and fifty thousand dollars of tax credit per project. Each investor is

limited to fifty thousand dollars. It is a thirty percent tax credit. The tax credit per investor would be fifteen thousand, which would have to be taken over two years. The down side, is you could invest fifty thousand and lose it. But, you could write off the fifty thousand, depending on your tax bracket, if you are in a forty percent tax bracket, you will get a twenty thousand dollar credit off of your other income.

**REP. CARLSON** The initial logic behind this is to make it available to more people?

**REP. BERG** Initially for start up companies. They may have owners who are in the business full time, but don't own the majority of the business.

**REP. CARLSON** Why would we remove some of the requirements?

**REP. BERG** Because we are requiring to take it over two years, an individual taxpayer would receive seventy five hundred per year. It is more, just trying to keep it simple.

**REP. CARLSON** It changed from fifteen years to four years, is that for a quicker chance to take those credits?

**REP. BERG** The purpose on page 2, line 27, is, if we are going to give an individual a tax credit, he may have other business losses, and may not use that tax credit for two years, the original statute says, we want to give him a tax credit, so they allow him up to fifteen years. This is something the committee can look at. We changed that to four years, and our intention there was, we don't want a lot of these tax credits hanging out there in the future. If they get a tax credit, we would like them to use it.

**REP. CARLSON** I saw in the other bills, it was ten years instead of fifteen. We would like one package with everything in that we need, instead of three packages.

**REP. BERG** Gave an overview of all of the three bills which had a tax credit for investors. He stated his preference would be to pass HB 1413 and do not pass HB 1041. HB 1291 adds value added agriculture as one of the qualified businesses. If you wanted to amend HB 1291 into HB 1413, then we would have one bill.

**JACK DALRYMPLE, LIEUTENANT GOVERNOR OF NORTH DAKOTA.** Testified in support of the bill. This bill has a lot of good features. First of all, you have a law that is already on the books. The confusing thing about the bill is that you do have a whole other section of code, dealing with the investment tax credit where it actually specifies that it is a thirty percent credit. You don't see that in this bill. This bill, in almost exactly the same form, did pass the last legislative session. Unfortunately, there was no fiscal limit on impact from the bill, which this bill does contain, which is a maximum credit allowable of 2.5 million dollars per year. I think that is a good safeguard. There is a potential for this program to be extremely popular, and we would certainly be happy if it was. We need to be aware if we are going to have everybody claiming credits on the short form. In my opinion, this is economic development at the grass roots. The E D & F plays a roll in this. These projects are going to have to be approved. Unless you have the rubber stamp of E D & F, you might not qualify for credit. I think that is a good control. There are many safeguards in the existing code. It must be a "for profit" partnership, limited partnership, etc. It must a primary sector business. It has to satisfy our own securities filing department. It has to have a principal office in North Dakota, or conduct the majority of its business in North Dakota. It has to have more than ten employees or sales of more than one hundred fifty thousand dollars. This will not be start up money. There is a minimum

and a maximum amount. This is not something someone can throw down on their short form without it being reviewed.

**REP. CARLSON** Are you envisioning it as a voucher which will have to be run through E D & F and then the Tax Commissioner?

**JACK DALRYMPLE** That is the discussion they have had up to now, that there would be some form of communication either in the form of a letter or voucher or something from E D & F over to the Tax Commissioner.

**REP. CARLSON** Are we assuming this will be done by Administrative Rule, that part of it,

**JACK DALRYMPLE** It is in the control of the director of E D & F.

It is accounted for in the Governor's Budget. The first tax year this will be available is 2002.

Most of them will be claiming this in 2003.

**REP. CARLSON** One of the deterrants of this has been because it has been on the long form, but another reason is because it is high risk, it takes a special kind of investor to not want to see a return on his money, or lose his money.

**JACK DALRYMPLE** Yes, there is that aspect to it. Referred to Lee Peterson of E D & F. We need people to take a look at our state. We will provide some safety, we think we can do that. It is very much a grass roots type of program.

**REP. CARLSON** Asked whether he would be in favor of amending HB 1291 into HB 1413.

**JACK DALRYMPLE** Stated it was great by him.

**LEE PETERSON, DIRECTOR OF ECONOMIC DEVELOPMENT & FINANCE**

Testified in support of the bill. He stated all of us in North Dakota have done a great job in providing capital for economic development. The Bank of North Dakota, the development fund,

a local fund, revolving loan funds at the planning councils, community development block grants, what we lack is private investments. We used to have private investments in North Dakota. He stated in Minot, they had a little Venture Capital Fund, which helped businesses that were trying to grow and expand. As the Magic Fund came into place, the Venture Capital Fund went away. We really don't have a lot of private investment in North Dakota, especially in the start up sector. We need private investors, and to do that we need some seed capital. One of the reasons people don't do that is because of the low return, and generally high risk. This would be to allow those people to get something back, with a tax credit. On the short form, I believe it will work.

**REP. CARLSON** Are you in agreement with the various provisions?

**LEE PETERSON** We are in favor of all of those provisions.

**REP. CARLSON** Have you had discussions with the tax department on how this would actually work?

**LEE PETERSON** I have not had direct discussions with Commissioner Clayburgh.

**REP. KROEBER** wanted to ask Joseph Becker or Donnita Wald the same question if it is appropriate the way it is in the bill.

**JOSEPH BECKER, STATE TAX DEPARTMENT,** Appeared to answer questions. He stated this is amending existing chapter in the code. It is taking away some of the obstacles, and putting them on the short form. We already have an investment reporting vehicle which is not reflected here. Right now, the way the chapter is set up, when an investor puts money into a qualified business, that business must send in an investment reporting form to the tax office, and that is how we know who the taxpayer is and what the credit is. That is how we track it.

**REP. KROEBER** That is not a problem for you?

**JOSEPH BECKER** No, this will just marry into what we are already doing.

**REP. CARLSON** As far as I can see, since 1999, no one has used this.

**JOSEPH BECKER** Stated that particular chapter has not had any use at all.

**REP. CARLSON** You don't see any problems, I am assuming you would work with the Administrative Rule side of it, to get that handled?

**JOSEPH BECKER** I don't see where we would have to do a lot of work, right now. We have already gone through the implementation, we may have to revise some of our existing forms to reflect the changes.

**LEE PETERSON** When you go about doing this, it is extremely important that we can fund, dairy projects, hog farms, poultry projects, whatever occurs in North Dakota, that they can also use the exemptions. We are struggling right now with, how do we fund these dairy operations, which are springing up around the state. This needs to be encompassed in this bill.

**DALE ANDERSON, GNDA** Testified in support of the bill. Offered comments regarding this bill. GNDA is currently involved in a new initiative called a new economy activity. The thrust of this new initiative is that a new economy is not composed of a new industry, rather, it is industries functioning in fundamentally different ways. He gave four points stating business in North Dakota lags the rest of the nation, we have a very limited venture capital activity with North Dakota ranking forty fourth, we have the lowest level of technology firms, and the state's economy is the least in the nation. GNDA supports this bill for these reasons: It fills a priority need of private investments on the short form, it focuses on primary sector, it provides a thirty percent tax credit, and it has a limit.



**BILL SHALHOOB, REPRESENTING THE ECONOMIC DEVELOPMENT**

**ASSOCIATION OF NORTH DAKOTA**, Testified in support of the bill. I think the seed capital thing is needed. Large companies come in to North Dakota with this kind of thing, such as Aetna, and U S Health Care. Gave information regarding a small business which wanted to come to Mandan, but was not able to raise enough capital to start up the business. He stated there is a risk with this, however, the greater the risk., the higher the return.  
This is a very good step forward.

**WADE MOSER, NORTH DAKOTA STOCKMEN'S ASSOCIATION**, Testified in support of the bill. They support it with HB 1291 included.

**REP. CARLSON** Are you aware of what HB 1291 says?

**WADE MOSER** I am not that familiar with it, but I believe it would work.  
With no further testimony, the hearing was closed.

**COMMITTEE ACTION 2-7-01, TAPE #2, SIDE A, METER #0**

**REP. BRANDENBURG** Made a motion to adopt amendments which were presented to the committee.

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

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

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

**14 YES      1 NO      0 ABSENT**

**REP. BRANDENBURG** Was given the floor assignment.

**FISCAL NOTE**  
 Requested by Legislative Council  
 04/10/2001

Bill/Resolution No.:

Amendment to:           Engrossed  
                                   HB 1413

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.*

Engrossed HB 1413 with Senate Amendments modifies the seed capital provisions, alters the tax credit limitations and allows the tax credit on the short form.

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 Engrossed HB 1413 with Senate Amendments is unknown.

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.*

<b>Name:</b> Kathryn L. Strombeck	<b>Agency:</b> Tax Department
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Phone Number: 328-3402

Date Prepared: 04/11/2001

