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2003 HOUSE FINANCE AND TAXATION

HB 1471

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1471

House Finance and Taxation Committee

Conference Committee

Hearing Date January 29, 2003

Tape Number	Side A	Side B	Meter #
1	X		21.5

Committee Clerk Signature *Janice Stein*

Minutes:

**REP. WESLEY BELTER, CHAIRMAN** Called the hearing to order.

**REP. AL CARLSON, DIST. 41** Introduced the bill. He presented amendments to the bill.

Because of miscommunication, the legislative council drafted the bill as a flat tax, it was not meant to be a flat tax, it was meant to bracket it, except with different rates. Summary of the testimony is with the amendments added. See attached summary. This bill deals with addressing corporate income tax. He felt the perception of North Dakota is that it is a high tax state. The main objective of this bill is to get us to a real rate.

**JILL DENNING, GENERAL MANAGER OF BHG, INC.** Testified in opposition of the bill. See attached written testimony.

**REP. KLEIN** How much would you have to raise the price of the paper, if we pass this bill?

**JILL DENNING** A couple of years ago, we raised the price of our news stand copies of fifty cents to seventy five cents, we were scared. Businesses cut back on their ads.

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**REP. HEADLAND** Do you have any idea how long newspapers have been exempt in this state?

**JILL DENNING** I don't know.

**ROGER BAILEY, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA**

**NEWSPAPER ASSOCIATION** Testified in opposition of the bill. See written testimony.

**REP. KELSH** Do you know how many other states have newspaper exemptions?

**ROGER BAILEY** I don't know, there are some that have the tax, but they are in the minority.

**REP. BELTER** Is there some disagreement in your organization on this issue?

**ROGER BAILEY** I know that issue was explored by the forum editorily, and I believe they are with us on this opposition to the bill.

**REP. KLEIN** On your testimony you say a sales tax of \$21,528, is that yearly?

**ROGER BAILEY** That is an annual figure.

**REP. WEILER** Referred to middle of testimony, to absorb the tax an increase will not be possible, will you explain why it wouldn't be possible, to add a nickle onto the price of the newspaper?

**ROGER BAILEY** It could be possible, but in many cases, such as the situation with vending machines, the overall average price of newspapers now is about fifty cents. Vending machines only work in increments of twenty five cents, if the sales tax is added onto an individual copy, we are either looking at going up a whole lot, so that the individual copy would be seventy five cents, the consumer would pick that up. In many cases, if we are only adding three or four cents of sales tax on to it, the newspaper is not going to invest in new machines to take care of that.

**REP. WEILER** If it is fifty cents in the vending machine and you get charged an extra three or

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four cents, but you bump it up to seventy five cents, you are kind of coming out pretty good on that, unfortunately, the consumer gets hurt, but overall the income for the newspaper, is substantially increased.

**ROGER BAILEY** After having gone through this experience personally, an increase in advertising and subscription, each time it happens, you see a decrease in single copy sales.

**REP. WEILER** What is the percentage of vending machine sales versus delivery to homes?

**ROGER BAILEY** I can speak from my own experience as publisher of a newspaper in Rolla, about half of our newspapers were sold through individual copy and half through subscription. That is probably average throughout North Dakota.

**DAVE BUNDY, EDITOR OF THE BISMARCK TRIBUNE** Testified in opposition of the bill. See written testimony.

**REP. CLARK** Has your paper ever published an editorial talking about how you integrate income tax?

**DAVE BUNDY** I would have to say, there is a strong likelihood, that we have come out in favor of some kind of tax levy at one point or another. I don't have the facts in front of me right now.

**REP. CLARK** Don't you find your position a little schizophrenic then, talking about not wanting to pay taxes?

**DAVE BUNDY** Actually, I was pointing out on the first bullet item, we do not have a problem at all with paying our fair share of the tax, it is just how it applies to newspapers.

**REP. WEILER** You said your problem is singling out newspapers, if we put amendments on to add four or five others, would you be O.K. with adding newspapers?

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**DAVE BUNDY** I think there are other bills that address reduction of a corporate income tax that are more palatable to us. I don't know what the four or five things are you might be thinking of, but if they were things that were able to contribute enough of a portion to reduce the corporate income tax, so that we weren't entirely responsible for it, I think that is something we would be much less opposed to.

**JACK MCDONALD, NORTH DAKOTA NEWSPAPER ASSOCIATION** Testified in opposition of the bill. See written testimony plus a copy of a Supreme Court ruling.

**MARY LOFTSGARD, SUPERVISOR OF THE CORPORATE INCOME TAX SECTION OF THE STATE TAX DEPARTMENT.** Appeared in a neutral position. Added comments to Rep. Carlson's testimony. Submitted a form 40 of the corporate income tax return. Referred to the income tax return relating to areas which could be deleted. She explained what water's edge filing was, and who used that type of filing. Companies who use the water's edge filing do not get the tax exemption. She also submitted a North Dakota Domestic Disclosure Spreadsheet form for committee members. See attached copy.

**REP. BELTER** Are all the rules the same in all states regarding the water's edge?

**MARY LOFTSGARD** No they are not.

**REP. BELTER** A deletion of the sales tax to newspapers would have a 1.4 million dollars fiscal note?

**MARY LOFTSGARD** Yes

**REP. BELTER** You mentioned in your earlier comments regarding the bank portion of it, do we need to amend this bill then?

**MARY LOFTSGARD** No, that is already in the bill.

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**REP. FROELICH** If we break it out, instead of taxing both the newspapers and the ink, where would we be in income?

**REP. BELTER** Stated we have to get that information.

**REP. GROSZ** What would happen if someone was in the second year of the water's edge, then this bill passed, would they still be able to go through the five years, or would it be gone?

**MARY LOFTSGARD** It would be gone.

**REP. KLEIN** Asked for examples of the water's edge.

**MARY LOFTSGARD** She stated she couldn't divulge information as to what corporations were in the water's edge. She stated, these would tend to be large companies who extract national resources and process them. Generally, they are large multi national companies that operate world-wide.

**REP. BELTER, TO MILES VOSBERG** Asked if they have a break down in the newspaper situation of the sales tax of the sale of the paper, but there is also the sales tax on the ink and print of the paper?

**MILES VOSBERG** Stated they didn't have a break-down of those two items, the newspaper association testified that the tax on the newspaper would be about \$750,000, so the remaining 4.1 million increase in tax revenue, would be on the sale of the newspaper.

**REP. GROSZ** I believe they were receiving one million dollars more by the elimination of the water's edge, so do we take one off of 4.1 million, should it be only 3.1 from the newspapers?

**MILES VOSBERG** There is a net loss of revenue of 4.1 million in the corporate income tax changes. About one million dollars is raised from the change in the water's edge, but there is

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still an overall net loss of corporate tax revenue of 4.1 million. The sales tax revenue between the tax on the sale of newspapers and the tax on the newspaper and ink, would be an increase in tax revenue of 4.1, to make it revenue neutral.

**REP. KELSH** The state of Minnesota was toying with eliminating the exemption on newspaper, did that ever come to pass?

**MILES VOSBERG** I am not sure, I could check on that.

**REP. CARLSON** Commented again, if you just took away the water's edge, and you took away the federal deductibility, the rate would be 7.6 percent. You have to use that as your benchmark. The only reason that rate went to 7.2 and down to 2.1, is because we took the revenue from taking the exemption off of newspapers, to lower the rate. If you want to further lower the rates, you do that by taking an exemption away, and that further lowers the corporate income tax. That would represent North Dakota's rate.

With no further testimony, the hearing was closed.

**COMMITTEE ACTION** 2-3-03, Tape #1, Side B, Meter #5.7

**REP. BELTER** Presented amendments to the committee, 30645.0103, which will take the newspapers out completely, but still makes the bill revenue neutral.

**REP. GROSZ** Made a motion to adopt the amendments as presented.

**REP. DROVDAL** Second the motion. Motion carried by voice vote, with one no vote.

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

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

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