

# MICROFILM DIVIDER

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ROLL NUMBER

DESCRIPTION

2327

**2005 SENATE FINANCE AND TAXATION**

**SB 2327**

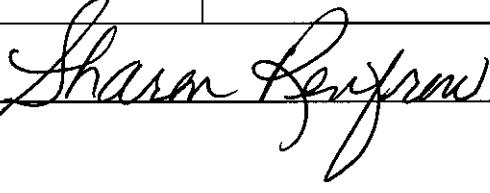
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB 2327**

Senate Finance and Taxation Committee

Conference Committee

Hearing Date **February 1, 2005**

Tape Number	Side A	Side B	Meter #
# 1	X		0.2 - 61.2
		X	0.0 - 4.3
Committee Clerk Signature			

Minutes:

**SEN. SCHOBINGER:** appeared as prime sponsor with written testimony.

**SEN. EVERY:** question on economic anemia. What is economic anemia?

**ANSWER:** We may be following into the same trap in the mid 2000's as we did in the mid 90's and that's the revenues of State Treasurer looks strong, the economy seems to be moving forward, all of us, I believe in terms that our population is growing at that time and it wasn't until the 2000 census was taken in the following update that we found our population as being declined. I fear that could be happening again.

**SEN. EVERY:** so your saying that the economy in North Dakota is struggling?

**ANSWER:** No - ND is doing a lot of good things, over the long term, we've had our peaks and lows, but I think over time, if we were to adopt consumer taxing structure with SD, we would become a regional draw, not just a state by state, not just SD, not just ND, but over time we would eventually force MT and MN to make big changes in the way they tax their citizens.

**SEN. EVERY:** How would you explain to your constituents that this is not a burden on the working poor and a tax cut for the rich?

**ANSWER:** when our young people can't find a job, they leave the state and that is exactly what this bill is intending to do is attract those types of jobs that pay the way that allow them to extend.

**SEN. EVERY:** that doesn't help me to explain to my constituents how it is that the most regressive tax that there is sales tax is going up and its going to be a burden onto them.

**ANSWER:** there is a rebate and refund for low income people and that is intended and designed to alleviate some of your concerns.

**SEN. EVERY:** how do you define what and how much is low income? Who qualifies, etc.?

**ANSWER:** they are on pages 80 to 84 where they are defined.

**SEN. EVERY:** anybody that makes more than \$9,000 a year is not included and the most anyone can get is \$250 a year.

**ANSWER:** shown in bill where a family and a single person income is laid out.

**SEN. WARDNER:** with a lot of talk on balance in our taxes, this would shift it to no income sales tax, any comment to those people.

**ANSWER;** by putting this in place, this is a pro-grow tax system over time by not taxing income which is the federal dollars that businesses need to grow.

**SEN. COOK:** the last bill we are hearing to day deals with a study resolution of all of the sales tax exemptions that our state offers based on who buys the product, farm machinery would be one of them, you are repealing all of them and then changing the method for farm tax, is that correct?

**ANSWER:** Yes, I wanted to be very fair on used farm machinery and did not move that over and above what SD \_\_\_\_\_. They are at 4%, which is their general sales tax, so in order to comply with the streamlined sales tax. We are not putting into law, we are simply asking the people of the state to determine make a vote on whether they want income tax.

**SEN. COOK:** ND for years has had a policy of offering income tax credits to enhance taxables. Some of these income tax credits are been offered and allow the tax payer to take them over 15 years, I assume then if we eliminate all of income tax that we're going to eliminate all those credits, my question is somebody who has made an investment with the idea that they are going to be able tax advantage of that investment by taking credits over the next 15 years, how are they, do they just lose that, is it taken away from them then?

**ANSWER:** basically we'll be offering an ultimate income tax credit, because they will no longer be carrying any income tax on their income. They'll be able to take that right away.

**SEN. COOK:** addressing property taxes, if the court rules on equity tax, how would that play out?

**ANSWER:** Property tax are primarily levied by local communities and that we should leave that within that jurisdiction. We have to keep those separate, what is levied at the state level and which is levied at the local.

**SEN. COOK:** 3 legged stool, agree that property tax is a local issue but were finding with the equity lawsuit that the property tax that goes for education, we might be found unconstitutional.

**ANSWER:** that's the reason I've introduced the bill along with the resolution, I could have come in with a resolution and said, let's send this to a vote of the people and ask them if they don't want income tax, I didn't believe that was the responsible thing to do. I think the

responsible thing to do is to introduce the resolution but then add the mechanism in place that will be put into place, if in fact they vote for it. That way we can debate everything that's in here including your issues over the next year and a half until the vote takes place. I have no doubt that all of those issues will be debated not only here but out in the public before the vote takes place and by the time they vote, they will have all the information they need.

**SEN. EVERY:** I too admire you for having the courage to do this, its outside the box thinking and discussion that needs to take place. I do have some concerns and think its a bad bill. Used farm equipment, didn't we exempt these farm equipment in the last session from sales tax and how is that gonna affect the rural ND?

**ANSWER:** I believe the first time we voted on the farm exemption, it was cut in half, 1.5 and voted to eliminate completely and I voted for both of those. What were looking at here is an overall strategy an overall new system in ND and that's why its included in this bill. We will be able to debate that. I think its time to send it to the people and give them their chance to have a say on it.

**REP. IVERSON:** appeared as cosponsor stating I support Sen. Schobinger in his efforts to overhaul the tax code. Comment, the start might lie, but the numbers never do. And the fact of the matter is that SD is doing something right here and ND should emulate this. They have the energy in this, they don't have the natural advantages that we do, yet they have 104,000 more people in their state than we do. If we were to put this bill into affect, I believe that we would have a progro strategy to grow our state. There is a provision in the bill that deals with the working poor and giving them a rebate on the purchases that they make, we don't want to tax somebody that can't afford, no.

**SEN. COOK:** how many other states do not have a corp. Or personal income tax?

**ANSWER;** don't know off the top of my head, but 9 do not have state income tax and if you look at those states, you see growth.

**SEN. COOK:** I can think of 2, Nevada and SD - they both have another source of income and that's gambling.

**ANSWER:** We have the energy sector here which SD doesn't, they don't have oil or coal like we do.

**REP. RUBY:** appeared as cosponsor of the bill states commending Sen. Schobinger on all his time and efforts putting into this bill. Through that research I feel he's come out with a very good plan of not only coming up with the idea but also allowing first of all the people to vote on it, which gives a very good opportunity for debate and discussion on every bit of it. As with school districts, everybody kinda looks at how it affects their area, on the tax issue, they also will do that too. I think with sales tax, generally people like it, its a good fast way to raise funds and with highway gas tax, people like the idea people coming from other areas help pay a portion of that and help out some of the burden on the local residence. One area of unemployment insurance and we just heard extensive amount of discussion and testimony about how in 1999 when we raised our rates to get our funds solvent, we had to raise substantially raise premiums or taxes if you will on businesses to get that fund solvently targeted. We are always being compared with our neighbors to the south, mainly because of businesses that are looking to move and I think this is a good way to do. Give the people a chance to vote for themselves.

**SEN. EVERY:** did I hear you right that the working poor are poor because they pay child support and not because of the wages they earn?

**ANSWER:** no, not always, but I see that people are in a financial situation where they have a hard time balancing all of their costs and not necessarily their wages, depends on the occupation. As I've seen with many people, the most calls I've ever received are either workers comp issues or child support issues.

**SEN. TOLLEFSON:** appeared as cosponsor stating we have to look at the big picture and everybody is affected by jobs in ND, corporate support, corporate attractiveness. I commend Sen. Schobinger again this session for coming forth with some ideas that can make a difference in ND. We have to think out of the box and it is a promotional effort to allow and attract corporations to prepare us for better jobs in ND. I am definitely in support of it and I think the people will be too, give them the chance to make that selection, that's what this bill does.

## **OPPOSITION**

**JIM FETTIG**, Manager of Command Labor & Staffing here in Bismarck appeared in opposition with written testimony stating a sales tax on staffing services is a tax on job.

**SEN. WARDNER;** what would your comment be that this is a referral to the people?

**ANSWER;** if it passes so be it, the people will publicly decide, but I do believe that when the people do get the information, I did a work up of the number of jobs lost by the impact and it amounts to something like 425 jobs. When people hear that I think it has an impact on that.

**JOHN RISCH:** elected ND Legislative Director of the United Transportation Union appeared in opposition with written testimony stating by repealing the state corporate income tax would grant tax relief only to "profitable" corporations. Struggling corporations would not benefit because struggling businesses pay little or no income tax. Also states that they oppose SCR 4004

Senate Finance and Taxation Committee  
Bill/Resolution Number SB 2327  
Hearing Date February 1, 2005

Stating under both situations, your sales tax liability, potential sales tax liability remains essentially the same.

**NANCY SAND:** ND Education Assoc. Appeared in opposition stating if this bill were passed and the resolution were approved by the people of the State of ND, that would significantly impact the outcome of that lawsuit of education and hopes the committee will take that into consideration.

**GREG SUND:** on behalf of himself appeared neutral on the bill stating there are considerable differences between the way these states \_\_\_\_\_. One of them being that SD relies very heavily on sales tax, everything you do and say in SD I think is sales taxed with the exception of eating services and they tried that at one time and got turned down. On the other side property taxes are also very heavily relied upon. To me, taxation is a far more complicated issue than simply taking out one reg of it and putting in another one and that that would solve our economic development situation. I think we'd be far more successful relying on marketing and awareness of the State and building rapport with people around the country and letting people know what the benefits are in ND then just changing the tax stuff.

**MIKE WALSH:** owner of King Koin Laundry and Car Wash in Bismarck appeared in opposition and handed out 2 sets of handouts, 1 from ND and 1 from SD titled "Children in North Dakota".

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB 2327**

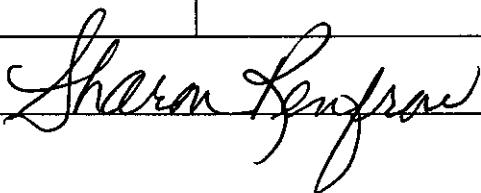
Senate Finance and Taxation Committee

Conference Committee

Hearing Date **February 2, 2005**

Tape Number	Side A	Side B	Meter #
# 2		X	15.7 - 20.6

Committee Clerk Signature



Minutes:

**SEN. WARDNER:** made a **MOTION FOR DO NOT PASS**, seconded by Sen. Every.

**SEN. WARDNER:** asked if we amended the effective? No

**SEN. WARDNER:** withdrew motion and **SEN. EVERY** withdrew his second.

**SEN. WARDNER:** made a **MOTION TO AMEND**, page 108, line 18 change 2006 to 2008.

**SEN. COOK:** may have mislead the committee, if SCR 4004 is approved by the voters, then we have a deadline date for those sections which is December 31, 2006. Made a **MOTION OF INTENT OF AMENDMENT**. Motions withdrawn and back to original bill.

**SEN. COOK:** made phone call and made a **MOTION FOR DO NOT PASS**, second by Sen. Every.

**ROLL CALL VOTE:** 5-1-0      Sen. Wardner will carry the bill.

## FISCAL NOTE

Requested by Legislative Council  
01/20/2005

Bill/Resolution No.: SB 2327

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.

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>						
<b>Appropriations</b>						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.

SB 2327 hinges upon the passage of SCR 4004 and the approval of voters. If enacted, SB 2327 repeals the corporate and individual income taxes, and broadens the sales tax base in a manner similar to the tax system in place in South Dakota. SB 2327 establishes a sales tax rate that is estimated to allow the provisions of the bill to be revenue neutral overall.

Approx. \$1.3 billion is expected to be collected in a biennium from the (current law) sales and income taxes, or from the provisions of this bill. Although the bill is estimated to be revenue neutral, because of the large magnitude of changes contained in SB 2327, a fluctuation of plus or minus one to five percent of that amount could possibly occur.

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.

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/31/2005

Date: 2-2-05  
Roll Call Vote #: 1

**2005 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. SB 2327**

## **Senate Finance and Taxation Committee**

Check here for Conference Committee

## **Legislative Council Amendment Number**

Action Taken \_\_\_\_\_ Do Not Pass \_\_\_\_\_

Motion Made By Cook Seconded By Evey

Total (Yes) 5 No 1

Absent

Floor Assignment / Werner

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

**REPORT OF STANDING COMMITTEE (410)**  
**February 2, 2005 5:15 p.m.**

**Module No: SR-22-1744**  
**Carrier: Wardner**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**SB 2327: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO NOT PASS (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING).** SB 2327 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

SB 2327

**Testimony**  
**Senate Finance & Tax Committee**  
**Chairman- Sen. Urlacher**  
**02-01-05**

Chairman Urlacher and members of the Senate Finance & Tax Committee. For the record my name is Randy Schobinger and I represent District #3 in the North Dakota Senate.

I'm here today to introduce a bold economic initiative and seek your assistance in moving it to a vote of the Citizens of North Dakota. If we in the legislature approve both SCR 4004 and SB 2327, SCR 4004 will appear on the ballot at the next general election. If passed by the people it will then amend our Constitution and trigger SB2327. This will effectively eliminate income taxes in North Dakota.

(As briefly as possible, while still emphasizing the important elements of SB 2327, I will now explain the bill.)

Mr. Chairman and members of the Senate Finance & Tax Committee. If passed by the people of North Dakota, these measures will take precise aim at our states economic anemia. In order for our state to compete in attracting business, particularly manufacturing industry, we must eliminate those barriers that discourage industry from coming to North Dakota.

I've spent years researching SCR 4004 and SB 2327. My background is in economics. That research concluded some interesting results. North Dakota has some significant advantages for manufacturing industry. Some of those are:

- North Dakota's citizens are the most productive in the nation
- North Dakota has an abundance of power and water readily available, and at extremely low rates
- North Dakota has one of the best k-12 outcomes in the nation
- North Dakota has the best employee work attendance
- North Dakota has one of the lowest crime rates in the nation
- North Dakota is located geographically to be attractive to new manufacturing business

However, until we are willing to address our "tax disadvantage", we will fail to awaken industry to the great advantages they can find here in North Dakota.

If we are to reverse the negative population trends over the next 15 years in 43 of our 53 counties, we must make the necessary changes now. We must attract jobs, and that means major industry. Implementation of SB 2327 upon an affirmative vote of the people on SCR 4004 is the first critical step necessary to make it happen. These

measures will not turn things around immediately, but will lay the necessary foundation to build upon.

While it is true that this 108 page bill will implement the will of the people by eliminating both the individual and corporate income tax; it will also eliminate more than 250 pages of tax laws, rules, regulations and the bureaucracy required to administer those taxes.

But more important- if we get these proposals enacted it will begin a new way of thinking in our state. It will stimulate a "we can change" attitude. And it is imperative at this time in our states history that we embrace change.

I've come here today to ask you—the members of the Senate Finance & Tax Committee—to help send these proposals to a vote of the people. Let's allow the citizens of North Dakota to direct their future.

## Elucidation- SB 2327

**Section 1 to 25 (pages 1 thru 20)** - are clean-up in nature and strike code references to the individual and corporate income tax. They also refer to the new sections of sales tax code.

**Section 26 (page 20)** - requires a lien to attach for delinquent taxpayers. Commissioner will index the information.

**Section 27 to 42 (pages 21 thru 35)** - are clean-up in nature and strike code references to the individual and corporate income tax. These sections also require payment of all individual and corporate income tax liability that exists before January 1, 2007.

**Section 43 (pages 35 thru 78)** - This section includes definitions and specifies the tangible personal property and services to which the sales tax applies and is exempt. You'll note that on page 39 the bill exempts used farm machinery from the 5.7% sales tax. Although further into the bill a gross receipts tax of 4% will apply to farm machinery. To see which services will apply the sales tax refer to page 40; line 16 to page 42; line 2. Coin operated Washers and Dryer businesses are exempt on page 42; line 3, but will pay an annual license fee of \$10.00. Page 42; line 18 exempts' charities from collecting sales tax. Page 42; line 29 exempts chemicals purchased for lawn and garden services. Page 43; line 2 applies a sales tax to utility services. Page 45; line 7 applies the sales tax to amusement and athletic events. Although, those events such as State Fairs and others financed with state dollars are exempt. Page 46; starting on line 7 exempts sales to all political subs, charities and Indian tribes. Page 46; line 25 exempts gasoline & motor fuels. These are taxed by other means. Page 47; starting on line 9 to page 60 line 29 specifies exemptions. Those of special interest might be:

- Services provided by rural water systems
- Fees to membership organizations
- Lottery Tickets-because special requirements apply
- Sales to educational institutions & hospitals
- Sales of Newspapers; ink and newsprint are also exempt
- Purchases made with Food Stamps
- Drugs prescribed by a physician, chiropractor, optometrist, podiatrist or audiologist.
- Durable medical equipment and prosthetic devices are exempt.
- Seed, fertilizer, pesticides are exempt.
- Sale of livestock, poultry, buffalo, sheep and others (see page 56; line 21)
- Sale of feed for certain animals are exempt. (page 56; line 29)
- Rodeo services are exempt

Page 60 to 67 explain the permit process, requirements and criminal repercussions for violating sales tax provisions. Page 68; line 1 deal with required deposits from sales, use & motor vehicles excise tax to the state aid distribution fund. Most of pages 72 to 74 deal with entities allowed to pay taxes in lieu of sales tax. Page 76 to 78 provides an extension for manufacturing equipment. Page 80 to 84 provides refunds or rebates for

low income individuals. Most of the bill from page 87 to 107 is duplicated earlier in the bill. This can be cleaned up by legislative council.

Sections 49 & 50- repeal code relating to individual, income and sales tax.

Section 51- requires the people of North Dakota to approve SCR 4004 before SB 2327 will trigger. If SCR 4004 is turned back by North Dakota's voters, SB 2327 is turned back also.



January 24, 2005

The Honorable Randy Schobinger  
North Dakota Senate  
P.O. Box 1215  
Minot, ND 58702-1215

Dear Senator Schobinger:

On behalf of the more than 1,000 members of the National Taxpayers Union (NTU) in North Dakota, I write to offer our strong support for your proposed amendment to the North Dakota Constitution, which would prohibit the state from imposing taxes on corporate or individual incomes. As you are certainly aware, and as many of your colleagues should be aware, taxes on earned income can constitute the most troublesome barriers to economic growth. Because these taxes place heavy and – in North Dakota – progressively rising burdens on taxpayers and business owners as they work harder, there is no doubt that North Dakota would benefit immensely from their repeal.

It is useful to note, for example, that North Dakota's personal income tax system consists of five brackets and a top rate of 5.54 percent kicking in at an income level of \$307,050. Although individual income taxes may be moderate in comparison with those levied in some states, North Dakota's corporate tax structure, which has no federal tax deduction, ranges from 2.5 percent to 7 percent and is higher than most other states that do not allow these taxes to be deducted from federal taxes. Making the corporate income tax even more economically harmful is the fact that it kicks in at only \$30,000 of income.

Although North Dakota's economy may be the envy of many high-tax states on either coast like New York or California, North Dakota more often competes for jobs and residents with nearby states like South Dakota. Unfortunately for North Dakota, the presence of a state income tax makes it a less hospitable climate for business than South Dakota. This is borne out by the fact that according to the Tax Foundation's *2004 Business Tax Climate Index*, North Dakota finished a rather poor 39<sup>th</sup>, while South Dakota finished 1<sup>st</sup> overall.

North Dakota's business climate has real importance for efforts to maintain and expand economic opportunities in the state. A 2002 report called *Saving North Dakota* found that North Dakota's economy grew 48 percent from 1990 to 2000, while South Dakota's grew 66 percent. Personal income in North Dakota grew 56 percent during the decade, versus 73 percent in South Dakota. Also, non-farm employment in North Dakota grew 27 percent for the decade, versus 37 percent in South Dakota. As for population, census figures released this month show that South Dakota grew by about 63,000 people during the 1990s, compared with North Dakota's 6,340-person increase.

By taking the lead in reforming your state's tax policies through the elimination of North Dakota's income tax, you are doing a great service to your fellow residents. NTU and our members in North Dakota look forward to working with you to enact this important legislation.

Sincerely,

A handwritten signature in cursive script that reads "Paul J. Gessing".

Paul J. Gessing  
Director of Government Affairs



# ***united transportation union***

**JON KRISCH**  
*State Legislative Director*  
**NORTH DAKOTA LEGISLATIVE BOARD**

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**Testimony of John Risch  
Before the Senate Committee on Finance and Taxation  
Opposing SCR 4004  
February 1, 2005**

Mr. Chairman and members of the committee, my name is John Risch. I am the elected North Dakota Legislative Director of the United Transportation Union. The UTU is the largest rail labor union in North America. Our membership includes conductors, engineers, switchmen, trainmen, and yardmasters. The UTU opposes SB 2514 for a number of good reasons. I will address the corporate tax repeal first.

2327  
**Corporate Income Tax**  
Repealing the state corporate income tax would grant tax relief only to "profitable" corporations. Struggling corporations would not benefit because struggling businesses pay little or no income tax. The beauty of our current income tax system is that it is self-adjusting. When a business hits a downturn, it pays little or even no income tax in a given year. When things improve, a business's taxes increase along with its prosperity. The positive aspects of a business's tax liability being based on its ability to pay cannot be overstated.

This proposal to take corporate North Dakota off the income tax rolls is simply bad public policy. It grants tax breaks to established businesses without any obligation to reinvest any of that money in our state. One could argue that this bill will simply take corporations off the income tax rolls and not one new job will be created because there's no requirement for them to do so.

I work for the Burlington Northern Santa Fe Railway, which is a good company to work for. I enjoy my job. But taking BNSF off the income tax rolls won't cause them to create one new job in our state. My company creates jobs when there is work to be done. This bill will do nothing to enhance that.

When you think about North Dakota's current economy, there are segments that are in trouble. Certainly low-wage workers struggle, but what good would it do them to take employers like Walmart and McDonald's off the income tax rolls? At issue is fundamental fairness. It isn't fair to take the most prosperous entities in North Dakota off the state tax rolls and shift the tax burden onto the rest of us.

**Personal Income Tax**

The personal income tax is a very fair tax because, like the corporate income tax, it is self-regulating, based on one's ability to pay. When a person has a high income in one year, they pay more taxes; when their income goes down, for whatever reason, their tax liability goes down correspondingly. If they have a very bad year, they pay no income tax at all.

For example, if a farm family has a prosperous year with a bumper crop, they're in a much better position to pay some income tax than in a year when they have little or no crop due to drought or disease. However, in both good and bad years, the expenses, and with it, their sales tax liability, remain relatively the same no matter what the outcome at harvest time.

Raising and expanding the sales tax is more harmful to moderate and lower income people than to affluent people because lower income people spend more of their disposable income on taxable items. Much of the money affluent people receive, after paying for goods and expenses, is invested and not taxed at all. Raising the sales tax will make our overall tax system less fair, putting more of our tax burden on those less able to afford it.

Our state has a diverse tax system. To change that and become so reliant on the sales tax is extremely risky. Any downturn in the economy would dramatically affect our tax revenue. In addition, as the volume of goods purchased over the internet increases, it means a corresponding decline in the collection of sales tax revenue. The potential remains for a huge reduction in future sales tax revenue.

There are a host of reasons why this legislation should be defeated. I've listed a few. But the main reasons are that it would make our tax system less fair and equitable, and it would place more of the tax burden on moderate and low income people. For these reasons, the UTU opposes SCR 4004 and urges this committee to recommend a "DO NOT PASS."

**Average wage and salary  
disbursements  
(dollars)**

<b>FIPS</b>	<b>Area name</b>	<b>2003</b>
00	United States	37,154
01	Alabama	31,561
02	Alaska	37,851
04	Arizona	34,738
05	Arkansas	28,335
06	California	41,811
08	Colorado	38,378
09	Connecticut	47,262
10	Delaware	40,044
11	District of Columbia	59,422
12	Florida	33,221
13	Georgia	36,160
15	Hawaii	34,135
16	Idaho	28,243
17	Illinois	39,925
18	Indiana	32,735
19	Iowa	29,922
20	Kansas	31,028
21	Kentucky	31,382
22	Louisiana	30,219
23	Maine	30,267
24	Maryland	40,110
25	Massachusetts	45,179
26	Michigan	38,664
27	Minnesota	37,797
28	Mississippi	27,078 (49 <sup>th</sup> )
29	Missouri	33,284
30	Montana	26,830 (51 <sup>st</sup> )
31	Nebraska	30,456
32	Nevada	35,852
33	New Hampshire	36,519
34	New Jersey	45,545
35	New Mexico	30,467
36	New York	46,577
37	North Carolina	33,180
38	North Dakota	27,370 (48 <sup>th</sup> )
39	Ohio	34,476
40	Oklahoma	29,414
41	Oregon	33,844
42	Pennsylvania	36,157
44	Rhode Island	35,555
45	South Carolina	30,325
46	South Dakota	26,877 (50 <sup>th</sup> )
47	Tennessee	32,868
48	Texas	36,421
49	Utah	30,829
50	Vermont	31,166
51	Virginia	38,152
53	Washington	39,283
54	West Virginia	28,688
55	Wisconsin	32,779
56	Wyoming	29,772

**Testimony by Jim Fettig  
Regarding SB. 2327  
Before the Senate Finance and Taxation Committee  
February 1, 2005**

Mr. Chairman and members of the committee, my name is Jim Fettig. I am the Manager of Command Labor and Staffing here in Bismarck. I appear today on behalf of the North Dakota Staffing Association. **On behalf of the over 2500 people we employ every day in this state, we ask that you oppose SB. 2327.**

A sales tax on staffing services is a tax on jobs. A previous study by the American Staffing Association has shown that taxes have a negative impact on the staffing industry, and due to a “ripple” effect, could have adverse consequences for our state’s overall economy. The study has indicated that for every 1% of tax on staffing services, the number of staffing jobs is reduced by 2.13% with a corresponding reduction in the wage rate of .44%. The estimated numbers of the sales tax impact on the staffing industry in North Dakota are attached to this testimony.

The sales tax on staffing services falls especially hard on small business, and on new start up companies. Small businesses often use staffing firms for specialized needs, handling peak work loads, or extra project work when it is not feasible to hire extra people. New companies often use staffing firms in the early stages until they are more certain of their permanent staffing needs.

A sales tax on staffing services is a tax on business to business transactions. A tax on staffing services is a tax on business to business transactions. A tax at this intermediate stage of business commerce results in tax pyramiding, so the ultimate consumer is taxed twice for the same transaction.

The impact of a sales tax on temporary help is magnified by the “ripple” effect on other industries. A loss of temporary jobs means less spending by those who are no longer working. Fewer goods and services purchased means less income in other sectors of the economy, like retailers. Such losses not only reduce expected sales tax revenue but also reduce income tax and other tax collections throughout the state. The bottom line is that sales taxes that significantly impact jobs are largely self-defeating.

For these reasons, we respectfully ask that you oppose SB. 2327. Thank you.

## **ESTIMATED IMPACT OF SALES TAX IN NORTH DAKOTA**

Using a estimate of 2500 workers per day employed by staffing firms in North Dakota working 8 hours per day earning an average pay rate of \$9.00 per hour we can use the following formula to calculate the impact of the sales tax on the staffing industry in North Dakota.

2500 workers x 8 hrs/day = 20,000 hrs worked per day in the staffing industry.

20,000 hrs/day x 365 days/year = 7,300,000 hrs worked per year by temporary workers.

7,300,000 hrs worked x \$9.00/hr = \$65,000,000 per year in payroll.

5.77% sales tax x 2.13 reduction in use = 12.29% total reduction of use

12.29% x \$65,000,000 total payroll \$ = \$7,988,500 reduction in total payroll

\$7,988,500 payroll / \$9.00 per hr average pay = 887,611 less hours worked by temporary employees.

887,611 total hours lost / 2080 average hours worked by a full time employee per year = **426 total jobs lost per year by the temporary staffing industry in North Dakota!**

Honorable Senator, Representative *[Signature]* *[Signature]*  
 &/or NETV5 MEDIA, *[Signature]* *[Signature]*  
 Please Read! All of the below numbers  
 & percentages came from the most  
 recent bipartisan USDA &  
 U.S. Census.

**Children in South Dakota**

195,426 children live in South Dakota

*Children - Dakota Land*

A child in South Dakota is abused or neglected every 2 hours *ND*  
 A child in South Dakota is born into poverty every 4 hours *6*  
 A child in South Dakota dies before his or her first birthday every 5 days *6*  
 A child or teen in South Dakota is killed by gunfire every month *2*

**South Dakota Rankings\***

South Dakota ranks 17<sup>th</sup> among states in percent of babies born at low birthweight. *ND*  
 South Dakota ranks 31<sup>st</sup> among states in infant mortality. *5<sup>th</sup>*  
 South Dakota ranks 34<sup>th</sup> among states in the percent of children who are poor. *45<sup>th</sup>*  
 South Dakota ranks 44<sup>th</sup> among states in per pupil expenditures. *31<sup>st</sup>*  
 South Dakota ranks 46<sup>th</sup> among states in the percent of babies born to mothers who received early prenatal care. *14<sup>th</sup> SD loses!*  
 [\*1<sup>st</sup> represents the best state for children and 51<sup>st</sup> represents the worst state for children.]

**Child Poverty in South Dakota**

Number of poor children	27,352	<i>ND</i>
Percent of children who are poor	14.4%	<i>13.3</i>
Number of adults and children receiving cash assistance from Temporary Assistance for Needy Families (TANF)	6,197	<i>SD loses!</i>
Maximum monthly TANF cash assistance for a family of three	\$483	

**Child Hunger in South Dakota**

Number of children who receive food stamps	25,910	<i>ND</i>
Percent of eligible persons who receive food stamps	65%	<i>63%</i>
Number of children in School Lunch Program	103,480	<i>SD loses!</i>
Number of women and children receiving WIC (Supplemental Nutrition Program for Women, Infants and Children)	20,278	

**Early Childhood Development in South Dakota**

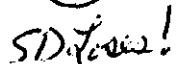
Percent of children under age six with all parents in the labor force	71.9%	<i>ND</i>
Number of children served by Head Start	2,827	<i>68.5%</i>
Number of children served by the Child Care and Development Block Grant	3,400	<i>SD loses!</i>
Average annual cost of child care for a four-year-old in a center	\$4,243	

**Child Welfare in South Dakota**

Number of children who were victims of abuse and neglect	3,961	<i>ND</i>
Number of children in foster care	1,415	<i>1:3 ratio</i>
Number of children adopted from foster care	145	<i>SD loses!</i>
Number of grandparents raising their grandchildren	2,625	

Submitted by Mike Walsh  
 DDA King Room  
 of Bismarck  
 2-1-05

### **Education in South Dakota**

Amount spent per pupil in public school	\$5,632	ND
Percent of fourth graders reading below grade level	67%	
Percent of fourth graders below grade level in math	66%	
Average class size in public elementary schools	18.6	17.4
Average class size in public secondary schools	19.6	18.7

### **Child Health in South Dakota**

Number of children without health insurance	18,000	13,000	ND
Percent of children without health insurance	8.8%	8.3%	
Percent of two-year-olds who are not fully immunized	20.1%	22.3%	

### **Youth At Risk In South Dakota**

Percent of 16- to 19-year-olds who are not enrolled in school and are not high school graduates	8.0%	4.8%	ND
High school completion rate	92.0%	94.4%	
Percent of 16- to 19-year-olds who are unemployed	8.0%		
Number of juveniles arrested	5,954	7,025	
Number of children and teens in juvenile or adult correctional facilities	1,091	271	
Number of children and teens killed by firearms: 1 homicide; 7 suicides; 0 accidents; and 0 undetermined	8	2	
		11,010	SD loses!

**GET INVOLVED:** CDF and our partners in South Dakota offer a variety of projects, which individuals, organizations and congregations can initiate at the local level to improve the lives of children. CDF provides training and/or ongoing technical assistance for many of these projects.

The Dodd-Miller comprehensive **Act to Leave No Child Behind** (S. 448/H.R. 936) will help provide all children a *Healthy Start*, a *Head Start*, a *Fair Start*, a *Safe Start*, and a *Moral Start* in life and successful passage to adulthood with the help of caring families and communities. For more information on how the Act to Leave No Child Behind will help children in your state, and how your Representatives and Senators vote for children, please visit [www.cdfactioncouncil.org](http://www.cdfactioncouncil.org).

Compiled from the most up-to-date data available.

*For more information on the state of America's children contact:*

*Children's Defense Fund  
25 E Street, NW  
Washington, DC 20001  
(202) 628-8787  
[www.childrensdefense.org](http://www.childrensdefense.org)*

*Submitted by Mike Walsh  
OBA King Room of Bismarck  
2-1-05*

# **Senate Bill No. 2327 Testimony**

**By: Glen E. Baltrusch**

**Before the Senate Finance and Taxation Committee  
Lewis and Clark Room – North Dakota State Capital  
8:30 A.M., Tuesday, February 1, 2005**

Mr. Chairman, Members of the Committee;

Good morning. My name is Glen E. Baltrusch. I currently reside at Harvey, North Dakota, and I seek your support for Senate Bill No. 2327 with a "DO PASS" recommendation out of this committee to the floor of the Senate, with the members of the Senate concurring and voting for enactment.

Senate Bill No. 2327 is a major step in the right direction, at the right time, for the right reasons, for North Dakota, as over the last number of years the out-migration and decline of North Dakota clearly has not been a positive direction for economic growth and prosperity. I can tell you that over the past several years I have had the opportunity to ask different people at random if they support the repeal of the state income tax across the board, personal – business – corporate, and replace it with an increase in the state sales tax. Of those I asked, well over a "super-majority" support the repeal of the income tax, and replacing it with a sales tax. Enactment of Senate Bill No. 2327 abolishes the income tax and replaces it with the sales tax, providing for a positive change that is needed in this state. Once enacted by this Fifty-ninth Legislative Assembly, North Dakota will have provided the change required to begin true economic development and eliminated an unjust form of taxation.

North Dakota needs and requires an expanding economy if it is to survive. The enactment of Senate Bill No. 2327 is for the benefit of North Dakota. It's an incentive for people and businesses to locate, start-up, expand, and create growth and prosperity within the state of North Dakota. Look out of the box to states without an income tax and you will find growth, not stagnation, as economies are dynamic – not static.

Mr. Chairman, Committee Members, I respectfully request that you give Senate Bill No. 2327 a "DO PASS" recommendation. Thank you for your time and consideration of this pertinent legislation before you.