

2011 HOUSE FINANCE AND TAXATION

HB 1116

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1116
January 12, 2011
12792

Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to homestead credit and disabled veterans certifications, the basis for calculation of the disabled veterans credit, assessment of destroyed or damaged property, and the basis for calculation of the new transmission line property tax exemption.

Minutes:

Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner: Sponsor. Support. Please refer to attached testimony and amendments (#1 and #2). One thing that is not in here that I would like to mention is that we do not have an effective date on this bill. I would request that you would add an effective date for all the sections for taxable years beginning after December 31, 2010.

Chairman Wesley R. Belter: No further questions. No further testimony in support of 1116. No opposition to 1116. No neutral testimony to 1116. Closed hearing on HB1116.

Representative Glen Froseth: Move to add effective date beginning after December 31, 2010 and move to add the proposed amendments.

Representative Mark S. Owens: Seconded to accept amendments and the effective date.

A voice vote was taken: 14 AYE 0 NAY 0 ABSENT

Representative Lonny B. Winrich: Motion for DO PASS AS AMENDED.

Representative Mark S. Owens: Seconded.

A roll call vote was taken: 14 YES 0 NO 0 ABSENT

MOTION CARRIED—DO PASS AS AMENDED

Representative Mark S. Owens will carry HB 1116.

FISCAL NOTE

Requested by Legislative Council
12/27/2010

Bill/Resolution No.: HB 1116

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 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.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1116 provides clarification and consistency among statutes for property tax administration purposes.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sections 1, 2, and 3 of HB 1116 provide clarification and consistency; there is no fiscal impact relative to these sections.

Section 4 of HB 1116 has a minimal, indeterminable fiscal effect. It corrects a wording problem that causes taxable value of a political subdivision to be overstated. Current language requires reduction of the taxes on specified transmission lines in the second, third, and fourth years of operation but the full amount of taxable value of those lines must be reported, even though the political subdivision may levy only a percentage of the taxes represented by the taxable value.

The correction may make a minimal difference in calculated mill rates because it will slightly reduce taxable value of affected political subdivisions. It will not change the total amount of taxes levied. Taxes levied on specified transmission lines will be calculated the same as taxes on other property instead of being calculated on overstated taxable value and then reduced by a percentage. Dollars levied on specified transmission lines will not change but will more appropriately equate to taxable value times mill rate.

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, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/07/2011

January 12, 2011

V/R
1/13/11

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1116

Page 1, line 5, after "exemption" insert "; and to provide an effective date"

Page 1, line 24, overstrike "person's"

Page 1, line 24, after "homestead" insert "owned and occupied by the disabled veteran or
unremarried surviving spouse"

Page 3, after line 20, insert:

"SECTION 5. EFFECTIVE DATE. This Act is effective for taxable years
beginning after December 31, 2010."

Renumber accordingly

Date: 1-12-11
 Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1116

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment

Rerefer to Appropriations Reconsider

Motion Made By Rep. Froseth Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter			Scot Kelsh		
Vice Chair. Craig Headland			Shirley Meyer		
Glen Froseth			Lonny B. Winrich		
Bette Grande			Steven L. Zaiser		
Patrick Hatlestad					
Mark S. Owens					
Roscoe Streyle					
Wayne Trottier					
Dave Weiler					
Dwight Wrangham					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

VOICE VOTE
 14 AYE 0 NAY 0 ABSENT

Date: 1-12-11
 Roll Call Vote # 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1116

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment

Rerefer to Appropriations Reconsider

Motion Made By Rep Winrich Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh	✓	
Vice Chair. Craig Headland	✓		Shirley Meyer	✓	
Glen Froseth	✓		Lonny B. Winrich	✓	
Bette Grande	✓		Steven L. Zaiser	✓	
Patrick Hatlestad	✓				
Mark S. Owens	✓				
Roscoe Streyle	✓				
Wayne Trottier	✓				
Dave Weiler	✓				
Dwight Wrangham	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Owens

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

REPORT OF STANDING COMMITTEE

HB 1116: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1116 was placed on the Sixth order on the calendar.

Page 1, line 5, after "exemption" insert "; and to provide an effective date"

Page 1, line 24, overstrike "person's"

Page 1, line 24, after "homestead" insert "owned and occupied by the disabled veteran or unremarried surviving spouse"

Page 3, after line 20, insert:

"SECTION 5. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2010."

Renumber accordingly

2011 SENATE FINANCE AND TAXATION

HB 1116

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1116
3/2/2011
Job Numbers 14846 & 14849

Conference Committee

A. Rittmiller

Explanation or reason for introduction of bill/resolution:

Relating to homestead credit and disabled veterans certifications, the basis for calculation of the disabled veteran credit, assessment of destroyed or damaged property, and the basis for calculation of the new transmission line property tax exemption

Minutes:

Written Testimony Attached

Chairman Cook opened the hearing on HB 1116.

Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner – (See attached testimony A in favor of HB 1116)

Chairman Cook – This correction you're making in section 4, did we make that error last session?

Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner – I wouldn't say there is really an error, I think it went back even prior to last session. The whole point is just that it creates an imbalance between taxes and anticipated taxes based on taxable value because when you get the mill rate calculated on one base, and then collect the amount of taxes due on a different base you have a slight difference. Also, it is more inconvenient for the political subdivisions to handle. Ordinarily we certify the valuations of all the centrally assessed property, so many dollars of taxable value in this district, so many in that district, and then they apply the correct mill rates to those taxable values. Instead they have to apply the mill rate and then multiply that by whatever percentage of tax is due that year. So it is an extra step for them.

Chairman Cook asked for testimony opposed to HB 1116. No one came forward.

Chairman Cook asked for neutral testimony for HB 1116. No one came forward.

Vice Chairman Miller – I'll move a Do Pass.

Seconded by **Senator Triplett**.

Senator Dotzenrod – These transmission lines, we don't tax them do we?

Chairman Cook – Yes we do.

Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner – This does not apply to the changes that took place in the previous session. New transmission lines under that chapter are subject to graduated taxation over the first 5 years, but that's not a property tax chapter with a taxable value or what have you, that has specific tax rates built in. This only applies to the transmission lines that are owned by companies that are centrally assessed, investor owned utilities.

Chairman Cook – Ask the clerk to take the roll. (7-0-0)

Chairman Cook closed the hearing on HB 1116.

Date: 3-2-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1116

Senate Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment

Rerefer to Appropriations Reconsider

Motion Made By Senator Miller Seconded By Senator Triplett

Senators	Yes	No	Senators	Yes	No
Dwight Cook - Chairman	X		Jim Dotzenrod	X	
Joe Miller - Vice Chairman	X		Connie Triplett	X	
Randy Burckhard	X				
David Hogue	X				
Dave Oehlke	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Miller

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

REPORT OF STANDING COMMITTEE

HB 1116, as engrossed: Finance and Taxation Committee (Sen. Cook, Chairman)
recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1116 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

HB 1116

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**TESTIMONY OF THE OFFICE OF STATE TAX COMMISSIONER
BEFORE THE
HOUSE FINANCE AND TAXATION COMMITTEE**

**HOUSE BILL 1116
JANUARY 12, 2011**

Chairman Belter, members of the House Finance and Taxation Committee, I am Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner. I am here today to testify in support of House Bill 1116.

SECTION 1.

The amendment to section 1 clarifies that June 1 of each year is the date by which the Tax Commissioner must certify to the State Treasurer the amounts due for payment of Homestead Credits, not the date by which the payments to counties must be made. The Office of State Treasurer concurs with this amendment.

SECTION 2.

The amendments in Section 2 change references to \$120,000 of "true and full value" to \$5,400 of "taxable value" for purposes of the Disabled Veteran's Property Tax Credit. This bill makes **no change** to the Disabled Veterans' Credit in terms of the benefit to the Veteran. Taxable value of \$5,400 is the same as true and full value of \$120,000. Mill rates are always applied to taxable value to determine property tax.

True and full value	\$120,000
X 50% = assessed value	\$ 60,000
X 9 % = taxable value	\$ 5,400

There are two reasons for the change to taxable value. One reason is to prevent distortion of the sales ratio study. If, under current law, the Disabled Veteran's Credit is deducted from the true and full value, the assessment of that property for sales ratio study purposes will show the net valuation after deduction of the credit. When that reduced valuation is compared to the sale price of the property, it will indicate the property is under assessed.

Example: A veteran's residence has a true and full value of \$175,000, according to the assessor. That property sells for \$180,000. The ratio of true and full value to sales price is 97.2% (175,000 divided by 180,000).

That veteran is eligible for 100% credit, a reduction in true and full value of \$120,000. If that credit is deducted from true and full value, the reduced true and full value is \$55,000. If the reduced true and full value is compared to the sale price, the ratio is 30.6% (55,000 divided by 180,000). This skews the sales ratio study and incorrectly indicates a need for an increase in the assessment.

The 100% credit, converted to taxable value, is \$5,400 (120,000 times .5 times .09). The taxable value of the property, before the credit, was \$7,875 (175,000 times .5 times .09). The remaining taxable value subject to taxation is \$2,475 (7,875 minus 5,400).

If the credit is deducted directly from taxable value, the sales ratio study is unaffected. Taxable value of the property is \$7,875 (175,000 times .5 x .09). Subtract the maximum taxable value credit allowed (minus \$5,400) and the remaining taxable value subject to taxation is \$2,475.

The other reason for the change is to make administration of the Disabled Veterans' Credit similar to administration of Homestead Credit. Homestead Credit has always been set out as a reduction in taxable value. It is easier for assessment personnel to calculate both credits similarly.

The changes on lines 14 and 16 of page 2 are to clarify that June 1 is the date by which the Tax Commissioner must certify to the State Treasurer the amounts due for payment of Disabled Veterans' Credits, not the date by which payments to counties must be made. The Office of State Treasurer concurs with this amendment.

SECTION 3.

The amendment on line 26 of page 2 changes the word "injured" to "damaged," which corresponds with similar language in N.D.C.C. § 57-23-04(1)(g). The amendment on line 27 adds "or other natural disaster," which also corresponds with similar language in N.D.C.C. § 57-23-04(1)(g).

SECTION 4.

Section 4 amends N.D.C.C. § 57-06-17.3, the new transmission line property tax exemption by changing reduction of "property taxes" to reduction of "taxable valuation." Current language provides for the "property taxes" of qualifying transmission lines to be reduced according to a statutory schedule. That current language complicates administration of the section. It also causes a hardship for the political subdivisions in which the transmission line

property is located by causing calculated mill rates to be inadequate to raise the anticipated revenue.

When mill rates are set according to law, they are calculated by dividing revenue needed by taxable value. Multiplying taxable value by the calculated mill rate is expected to produce the required dollars. When the law requires reduction of "property taxes," the required tax amount is calculated but a portion of that amount is not collected. If the required reduction is made to taxable value instead, the calculated mill rate will be slightly different and will generate the anticipated tax dollars. The significance of the difference depends on how much property in the political subdivision is subject to reduction.

Reductions or exemptions are usually applied to true and full value or taxable value and result in corresponding reductions in property taxes. The dollar amount of taxes levied on taxable property equals the remaining taxable value multiplied by the mill rate.

Approval of Section 4 will enable political subdivisions to more easily levy the correct tax dollars required by statute on new transmission line property, and at the same time maintain a normal relationship between taxable value and taxes levied. Under existing law, political subdivisions lose some expected tax dollars. With this amendment tax dollars collected by political subdivisions will equal the amounts they anticipate (assuming all taxpayers pay).

This concludes my prepared testimony. I will be glad to try to answer any questions.

#2

PROPOSED AMENDMENT TO HOUSE BILL 1116

*Prepared and proposed by the North Dakota Office of State Tax Commissioner
January 12, 2011*

Page 1, line 24, after "homestead" insert "owned and occupied by the disabled veteran or
unremarried surviving spouse"

Renumber accordingly

TESTIMONY OF THE OFFICE OF STATE TAX COMMISSIONER
BEFORE THE
SENATE FINANCE AND TAXATION COMMITTEE

HOUSE BILL 1116

MARCH 2, 2011

Chairman Cook, members of the Senate Finance and Taxation Committee, I am Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner. I am here today to testify in support of House Bill 1116.

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