

**FISCAL NOTE**  
**Requested by Legislative Council**  
**02/05/2019**

Amendment to: HB 1545

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>						
<b>Appropriations</b>						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
<b>Counties</b>			
<b>Cities</b>			
<b>School Districts</b>			
<b>Townships</b>			

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

Engrossed HB 1545 requests consideration of an interim study to determine alternative funding mechanisms to replace property taxes.

- 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.*

If enacted, engrossed HB 1545 will have no fiscal impact.

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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

**Name:** Kathryn Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 701.328.3402

**Date Prepared:** 02/07/2019

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/14/2019**

Bill/Resolution No.: HB 1545

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>						
<b>Appropriations</b>						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
<b>Counties</b>			
<b>Cities</b>			
<b>School Districts</b>			
<b>Townships</b>			

- 2 A. **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 1545 provides a property tax credit for an owner's primary residence. The county revenue reduction associated with this credit will be made up with an income tax surtax.

- 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.*

Section 1 of HB 1545 provides for a residential property tax credit for a taxpayer's primary residence, beginning with 2019 property taxes (due January 2020).

Section 5 of HB 1545 creates a county-specific income tax surtax equal to the amount of residential property tax credits that exist within that county. This surtax will be imposed equally against each return filed within that county including corporations, to the extent corporations can be assigned to a county. The income tax provisions of HB 1545 become effective beginning with tax year 2020; these returns will be filed through October 2021, which may be problematic with reimbursing county revenue earlier in 2020.

Overall, this provisions of HB 1545 are expected to be revenue-neutral, with each county having various amounts of residential property tax credits based on primary residence ownership within that county. Similarly, each county would receive make up revenue from an income tax surtax imposed across all returns filed within that county.

While revenue-neutral overall, it appears there may be some timing issues that could occur, resulting in a lack of surtax revenue to reimburse counties for the first year after implementation.

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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

**Name:** Kathryn Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 701.328.3402

**Date Prepared:** 01/29/2019

**2019 HOUSE FINANCE AND TAXATION**

**HB 1545**

# 2019 HOUSE STANDING COMMITTEE MINUTES

## Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1545  
1/30/2019  
31794

- Subcommittee  
 Conference Committee

Committee Clerk: Mary Brucker

### Explanation or reason for introduction of bill/resolution:

A bill relating to a property tax credit for property used as a primary residence and a surtax on income; relating to the homestead tax credit for special assessments, townhouse property, abatement actions, and mobile home exemptions; and relating to the property tax exemption for disabled persons, the homestead tax credit, and the property tax credit for disabled veterans.

### Minutes:

Attachments 1-4

**Vice Chairman Grueneich:** Opened hearing on HB 1545.

**Representative Ertelt:** Introduced bill. Distributed written testimony, see attachments 1-4. Ended testimony at 8:58.

**Vice Chairman Grueneich:** How would we get that distributed to the counties?

**Representative Ertelt:** The property tax owner would apply for this property tax credit or certify they are eligible for it by showing they are a resident of the home. You could apply the same to the expansion by the amendment if you were to apply to all property, just that you're an owner of that property. The county auditor would be collecting all the information and claims for the property tax credit. They would send that information to the tax commissioner which would be reviewed and certified that it is correct. The state treasurer would then transfer funds from the income surtax to the county treasurer for disbursement to the county. The income surtax would be calculated by how much property tax credit is claimed then dividing it by the number of income taxpayers in that county. The income surtax would be flatly applied to all income taxpayers if it was just the primary residence you're considering then it's just the individual, but if it's all property then it's both individual and corporate.

**Vice Chairman Grueneich:** The process sounds complicated and there are a lot of moving parts. Where is the Association of Counties in this? It sounds like the auditor's role is going to be expanded.

**Representative Ertelt:** In regard to this property tax credit yes it would be.

**Representative B. Koppelman:** A surtax is simply an income tax?

**Representative Ertelt:** It is applied to the income but it's a surtax in regard because it's a county by county...it's not equally distributed across the state. Initially when I was drafting this legislation it was just equally applied across the state but that would have resulted in a shift because counties with a higher property tax burden per capita would be shifting that across the state to lower it. I didn't want that to occur. This would put it on a county by county basis. It is a tax on income but it is not a direct income tax.

**Representative B. Koppelman:** They would continue to value your home then divide that against all the taxable income in the state which would determine the rate paid? Your rate over time would continue to fluctuate based on how big of a pot of money it took to satisfy the county's assessment that would normally be charging property tax against your home?

**Representative Ertelt:** Yes. You said it would be applied across the state but it's county by county.

**Representative B. Koppelman:** One county could have a 2% and another county could have a 3% depending on how high of taxation they do on property tax. If we use the provisions of our income tax system to determine taxable income, then every change we make to the income tax system we would then have the consequence of the locals every time we did that. How would the unintended consequences be when you're doing state policy on the income tax system?

**Representative Ertelt:** It most definitely would have impact on how we collect income tax at the state level and our policies. It would encourage some of the ideas we heard this morning looking at a flat income tax because then it would be more evenly applied to all the citizens across the state.

**Representative Trottier:** If you were a land rich county, such as Steele County, but they have the poorest income wise in the state, wouldn't that greatly increase the taxes on the ones that are paying income tax now?

**Representative Ertelt:** The bill simply shifts that tax to the same taxpayers not applied as a property tax but as a surtax on income. The premise is property ownership; do we own property or don't we. Income is a measure of exchange and economic wealth. There could be confusion that this would cause an increase but it's revenue neutral in the amendments. It shifts it to the same taxpayer on their income versus on their property.

**Representative Hatlestad:** This bill wouldn't give me property tax, income tax, or surtax then who would pay my bill?

**Representative Ertelt:** The surtax is on the income so I believe it will still be applied. You're referring to tax liability.

**Representative Mitskog:** If somebody chooses to live in a modest house who has higher wealth, would that be fair?

**Representative Ertelt:** It is not fair to anyone and that is the premise here. Any property ought not to be taxed because it is not a measure of wealth. It is only in the exchange in property that economic wealth can be measured.

**Representative Mitskog:** Wouldn't they be paying more?

**Representative Ertelt:** That is correct. It is possible that individual taxpayers may see an increase or decrease but across that county it would be neutral. Our choices have tax implications. This bill would drive some change in behavior because property is then less encumbered and people can store this accumulated wealth in their homes. This fluctuation from year to year can happen but it is not unlike what we see with property tax today. I don't know if people pay more attention to property or income taxes but it has a tendency to be more visible to them to see that they are taking home less out of their paycheck because it's not at the time they are receiving their income but later in the year.

**Representative Mitskog:** I live on a border city where some people earn their income in Minnesota while residing in North Dakota. They pay Minnesota state income tax.

**Representative Ertelt:** I don't know exactly how that would be applied but I believe you would be paying some income tax in North Dakota.

**Vice Chairman Grueneich:** Regardless if you live in North Dakota and work in Minnesota you're still going to pay taxes in North Dakota and that's how your property taxes would be assessed.

**Representative Ertelt:** I believe so. That was the intention for sure. The tax department could clarify that. We already recognize with homestead tax credit that people ought to live and stay in their homes. This is just a full recognition of that.

**Vice Chairman Grueneich:** Is there further testimony in support? Is there any opposition? Are there any questions for the tax department?

**Representative Mitskog:** Can you explain what happens if you earn income in Minnesota while living in North Dakota?

**Joe Becker, Tax Department:** To pick that apart a little, income from Minnesota certain income wouldn't be taxed due to a reciprocity agreement. If you have land or a business in Minnesota, then Minnesota will tax that portion but you'll get a credit for that in your North Dakota return because you live here. It's possible that none of the income would be taxed depending on its nature but as a resident you would still file your return with us.

**Representative B. Koppelman:** The reciprocity agreement says to pay the North Dakota taxes you owe then if the Minnesota tax has a higher liability for your income you would pay the difference to them. If this is done right where the surtax is sent in with your income tax that you pay the state, would it reduce your liability in Minnesota because you've now paid more income into North Dakota between state and county?

**Joe Becker:** Regarding the reciprocity agreement that stands on its own. The only situation is if an individual lives here, travels back and forth, and is an employee in another state then they don't have to pay anything in Minnesota, they'll pay it in North Dakota. If we have a situation of a taxpayer who lives here owns a business or land that is generating income in Minnesota, then Minnesota will tax that. We will also tax that in full but then we will subtract a credit equivalent to what we would have gotten on that income. The way this is drafted I'm assuming the surtax item would be a separate item unto itself. Sitting there that will generate the funds that are supposed to go back to the county. I don't think other things going on in the return will affect that line item, I think that's a separate line item.

**Vice Chairman Grueneich:** Would mills play a factor in there? How would that affect the state? Does the county distribute the money back to us?

**Joe Becker:** My understanding of this is that what you would have paid in property taxes within a county the dollar amount is to be divided up amongst all the income tax filers within the county. That dollar amount goes on that line on the tax return as the surtax which is the number that is aggregated to determine how much money has to go back.

**Vice Chairman Grueneich:** Is there anything further? Closed hearing.

# 2019 HOUSE STANDING COMMITTEE MINUTES

## Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1545  
1/30/2019  
31823

- Subcommittee  
 Conference Committee

Committee Clerk: Mary Brucker

### Explanation or reason for introduction of bill/resolution:

A bill relating to a property tax credit for property used as a primary residence and a surtax on income; relating to the homestead tax credit for special assessments, townhouse property, abatement actions, and mobile home exemptions; and relating to the property tax exemption for disabled persons, the homestead tax credit, and the property tax credit for disabled veterans.

### Minutes:

No attachments

**Representative Toman:** This is an interesting concept. I've visited with the sponsor about bringing in some amendments. Now the state can take your property if you don't pay your income tax as well so I'm sure you can't fully own your property.

**Representative Dockter:** I like the concept. The logistics and the reality in how you work with it would be very difficult.

**Representative Ertelt:** I visited with Emily Thompson of Legislative Council as she worked with me in drafting this bill. As written, each income tax filer would pay the same amount; it's not a percentage of income but rather an actual per capita charge. This isn't necessarily my intention on the bill. Non-filers are addressed in section 5 of the bill in line seven. It does not apply to those who do not have tax liability because they fall under that threshold. Section 1 subsection 16 addresses the political subs and the county. It is on a per taxing district basis and not just on a county basis as I said during my testimony. The income tax is handled in the same way as income tax provisions when recouping it if it's not paid. A tax lien could be placed yet on the property. Implementation of this would be pretty much the same as what they are doing today, it wouldn't be any more difficult than what they are already doing. The reduction language is the same that is used in the disabled vets homestead credit so I don't believe that's an issue. I understand that this probably isn't the appetite for change at this time. I would like the opportunity of looking at a study and hog housing this bill.

**Vice Chairman Grueneich:** I really like the concept too. The only thing I'm not crazy about is the inequity of income but I don't know how to fix that. This is completely different. This is actually a solution to a problem. I would like to have this turned into a study as well.

**Representative Hatlestad:** My perception of a surtax is a percentage of an income tax bill that you owed. This is not a surtax; this is a per capita tax. I feel there is a difference.

**Representative B. Koppelman:** If the goal is to do what it's trying to do here rather than trying to cherry pick things I believe we could repeal property tax on residential dwellings then task the political subdivisions to charge a per dwelling type fee. It would be a lot less cumbersome. I'd be okay with studying this as well.

**Vice Chairman Grueneich:** I think the concept is not like anything we've seen and I'd like to pursue this further. We're checking with Legislative Council. Representative Ertelt, would you like to see this turn into a study?

**Representative Ertelt:** I would like to see a draft of it before moving such an amendment.

**Vice Chairman Grueneich:** If there's nothing further we'll close for now.

# 2019 HOUSE STANDING COMMITTEE MINUTES

## Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1545  
2/4/2019  
32130

- Subcommittee  
 Conference Committee

Committee Clerk: Mary Brucker

### Explanation or reason for introduction of bill/resolution:

A bill relating to a property tax credit for property used as a primary residence and a surtax on income; relating to the homestead tax credit for special assessments, townhouse property, abatement actions, and mobile home exemptions; and relating to the property tax exemption for disabled persons, the homestead tax credit, and the property tax credit for disabled veterans.

### Minutes:

Attachments 1-2

**Chairman Headland:** I was absent the day of this hearing. I heard there were amendments. We're open for discussion.

**Representative Dockter:** This was going to be turned into a study. I'm carrying tomorrow on the floor, HB 1487, and turned that into a study for homestead credit. Once you have a study and it gets picked you can add some items into the study.

**Representative Ertelt:** Distributed proposed amendments, see attachments 1-2. The amendment .01004 is to consider as well. It was my intention to not encumber the property so this amendment would not treat the income surtax the same as income tax in the respect that you would not be able to put a lien on real property because of nonpayment of the surtax. The other amendment is the study the Representative Dockter was referring to. It is a hog house and we would replace the language of the bill with a study of an alternative mechanism for that local funding.

**Chairman Headland:** You're presenting your second amendment first? I see from the numbers that you are asking for the study first.

**Representative Ertelt:** I asked for both of them.

**Chairman Headland:** At the same time?

**Representative Ertelt:** Yes.

**Representative B. Koppelman:** This is a very complex proposal. Before we were to consider doing a local income tax that we would've wanted a broader conversation about the income tax at the lower level. **MADE A MOTION TO ADOPT AMENDMENT 19.0535.01003.**

**Representative Trottier: SECONDED**

**Chairman Headland:** Discussion.

**VOICE VOTE: MOTION CARRIED**

**Chairman Headland:** You have a study of an alternative revenue replacement for property tax before you.

**Representative Toman: MADE A MOTION FOR A DO PASS AS AMENDED**

**Representative Kading: SECONDED**

**Chairman Headland:** Discussion.

**ROLL CALL VOTE: 10 YES 4 NO 0 ABSENT**  
**MOTION CARRIED**

**Representative Toman will carry this bill.**

DA 2/1/19

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1545

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of replacing the revenue generated by property tax with an alternative funding source."

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PROPERTY TAX REVENUE REPLACEMENT.** During the 2019-20 interim, the legislative management shall consider studying the feasibility and desirability of providing an alternative funding mechanism for the revenue generated from property tax applied to one or more classifications of property. The study must consider alternative funding mechanisms while avoiding funding mechanisms that could result in further encumbrances being placed on real property. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-seventh legislative assembly."

Renumber accordingly

**2019 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. HB 1545**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 19.0535.01003

- Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:     Reconsider     \_\_\_\_\_

Motion Made By Rep. Koppelman Seconded By Rep. Trotter

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trotter					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Voice Vote = Motion carried*

*Study of an alternative ~~revenue~~ funding replacement for property tax.*

2019 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1545

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 19.0535.01003

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar

Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Rep. Toman    Seconded By Rep. Kading

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓	✓	Representative Eidson	✓	
Vice Chairman Grueneich	✓		Representative Mitskog		✓
Representative Blum	✓				
Representative Dockter	✓	✓			
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading	✓				
Representative Koppelman	✓				
Representative Steiner		✓			
Representative Toman	✓				
Representative Trottier	✓				

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Toman

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

**REPORT OF STANDING COMMITTEE**

**HB 1545: Finance and Taxation Committee (Rep. Headland, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1545 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of replacing the revenue generated by property tax with an alternative funding source.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PROPERTY TAX REVENUE REPLACEMENT.** During the 2019-20 interim, the legislative management shall consider studying the feasibility and desirability of providing an alternative funding mechanism for the revenue generated from property tax applied to one or more classifications of property. The study must consider alternative funding mechanisms while avoiding funding mechanisms that could result in further encumbrances being placed on real property. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-seventh legislative assembly."

Renumber accordingly

**2019 SENATE FINANCE AND TAXATION**

**HB 1545**

# 2019 SENATE STANDING COMMITTEE MINUTES

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

HB 1545  
3/6/2019  
Job #33280

- Subcommittee  
 Conference Committee

Committee Clerk: Alicia Larsgaard

## **Explanation or reason for introduction of bill/resolution:**

A BILL for an Act to provide for a legislative management study of replacing the revenue generated by property tax with an alternative funding source.

## **Minutes:**

Attachments: 1

**Chairman Cook:** Called the hearing to order on HB 1545.

**Representative Sebastian Ertelt, District 26:** Introduced the bill. See attachment #1.

**Chairman Cook:** Are you aware the very first piece of legislation that passed was a bill allowing counties to levy property tax?

**Representative Sebastian Ertelt:** Chairman Cook, I am now.

**Chairman Cook:** Any further testimony on this bill? Hearing none, we will close the hearing.

# 2019 SENATE STANDING COMMITTEE MINUTES

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

HB 1545  
3/19/2019  
Job #33946

- Subcommittee  
 Conference Committee

Committee Clerk: Alicia Larsgaard
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## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a legislative management study of replacing the revenue generated by property tax with an alternative funding source.

## Minutes:

Attachments: 0
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**Chairman Cook:** Called the committee to order on HB 1545.

**Chairman Cook:** Committee, there is a number in the legislature who strongly believe that property tax should go away and that somehow, we find another source of revenue to replace it. They understand local government needs the revenue, but they want to find a different source of revenue. I would argue that if you eliminate property tax, you eliminate anyone's desire to have some skin in the game and have a say in how big local government becomes. We all know the initiated measure we had to eliminate property tax. I do not like taxes any more than anyone else but they are a necessary burden and there is a way you have to do it where the burden is distributed among the tax payers. The more property you have, the more tax you are going to pay. The last time I went door to door was in 2016. I never had one person talk to me about property tax.

**Senator Patten:** I have never heard of what the alternatives to it would be. There is a discussion about sales tax but that does not work unless it is collected centrally and then dispersed across the state. There are a lot of municipalities that have no sales. I cannot imagine a circumstance where we are sitting there and finding a more equal alternative than property tax.

**Senator Meyer:** I look at my town and a lot of big boxes have been leaving. Online sales tax isn't generating and we have declined considerably.

**Chairman Cook:** I think the other revenue a lot of people look at are ones that they do not want to tell you they are looking at which would be earnings from the Legacy Fund. Those earnings today are not yet high enough to eliminate property tax. Should we ever use the earnings to eliminate property tax? It would be nice to not have to pay it but I also hate to think of what local government could become when all of a sudden, the Legacy Fund is paying for the property tax. If you do not have skin in the game, it is going to run away.

**Senator Unruh:** I was just thinking of a local school bond issue that we dealt with. Property taxes are used to calculate the payments for everyone and I think if they had not realized how high their property tax bill would become as a result of that bond, I am not sure people would have got engaged in the Legacy Fund. Maybe arguably, that is a good use for it. Why engage?

**Chairman Cook:** That is a major expense. I think of a smaller expense like sitting down at the coffee table and people complain about their property tax and then the next conversation is why don't we have snow gates. You can have snow gates as soon as you are willing to dig into your pocket and pay more property tax.

**Senator Kannianen:** As one that has yet to serve on an interim tax committee, I am assuming this issue has been discussed in terms of potential alternative funding mechanisms or sources.

**Chairman Cook:** Property tax has been studied extensively.

**Senator Unruh:** I do not think it has been a specific study directive, but it has been a topic over lunch during every interim tax meeting.

**Chairman Cook:** You are right.

**Senator Dotzenrod:** We had a bill earlier that came from a study group in Bismarck that was looking for some alternatives to special assessments. Did that get changed into a study?

**Chairman Cook:** We still have the bill and I sat down with Emily this morning to discuss the study language. That will look for an alternative revenue source. They have the alternative revenue source identified but it still would be owners of the property. The only thing we need to do with a study is have a statewide study so that everyone will know how it will affect their community if they choose to do it rather than just a Bismarck study.

**Senator Meyer: Moved a Do Not Pass on HB 1545.**

**Senator Unruh: Seconded.**

**Chairman Cook: Any Discussion?**

**Senator Dotzenrod:** The only comment I would make is that this is a subject of interest in every session. I think it would have been helpful if they would have offered some alternative. I am not sure which way a committee would go. This would not be an easy fix to say we are going to avoid future increases in property tax unless you have some idea of where there might be a chance. I think that makes a study bill tough.

**Senator Patten:** We have passed 1066 that will provide additional funding for just about every community in the state for their infrastructure needs as a way of restricting the growth or the increases in a property tax. That is not saying it will decrease them, but it will provide funding for projects that they may not have been able to afford or they chose not to do but

are still needed. To use the Legacy Fund to replace property tax for general operating is not something I have any interest in.

**Chairman Cook:** They may be thinking of something else other than the Legacy Fund. That was my speculation.

**Senator Patten:** It would be other people's money.

**Chairman Cook:** Yes.

**Senator Kannianen:** I agree with both the Senator's here but I will give this bill a vote because you never know what ideas people might have. I am open to at least listening to the options.

**Chairman Cook:** We have another one coming up that pretty much says the same thing as this one.

**A Roll Call Vote Was Taken: 5 yeas, 1 nay, 0 absent**

**Motion Carried.**

**Senator Dotzenrod will carry the bill.**

Date: 3-19-19  
 Roll Call Vote #: 1

**2019 SENATE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1545**

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar

Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Meyer Seconded By Unruh

Senators	Yes	No	Senators	Yes	No
Chairman Cook	✓		Senator Dotzenrod	✓	
Vice Chairman Kannianen		✓			
Senator Meyer	✓				
Senator Patten	✓				
Senator Unruh	✓				

Total (Yes) 5 No 1

Absent 0

Floor Assignment Dotzenrod

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

**REPORT OF STANDING COMMITTEE**

**HB 1545, as engrossed: Finance and Taxation Committee (Sen. Cook, Chairman)**  
recommends **DO NOT PASS** (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING).  
Engrossed HB 1545 was placed on the Fourteenth order on the calendar.

**2019 TESTIMONY**

**HB 1545**

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Testimony in Support of House Bill 1545  
Rep. Sebastian Ertelt  
ND District 26

Chairman Headland and Members of the House Finance and Taxation Committee,

For the record, I am Representative Sebastian Ertelt representing District 26. Property tax is perhaps the most egregious tax there is. It is a consumptive tax which continually eats away at what a person possesses and makes of them a slave. Yes, a slave - forced to work to simply retain that which is already theirs. There is an alternative - one offered by House Bill 1545.

HB 1545 provides for a full property tax credit on primary residences and shifts the source for this tax revenue to a surtax on income. It leaves in place the farm residence exemption, but does not allow both to be claimed. As is the case with the homestead tax credit, this property tax credit will still apply to the individual property owner if they are confined to a nursing home, hospital, or care facility if the property is not occupied by another. Co-owners are entitled to the credit at the same percentage of their ownership share. If the residence is in a commercial property then the credit is applied to the portion that constitutes the residence.

The system for property valuation, equalization, and abatement will remain in place and does not reduce special assessment liability. The county auditors will certify the claims to the tax commissioner who in turn certifies the amount payable to the county treasurers by the state treasurer. The funds for payment will come from an income surtax applied to all income taxpayers on a county by county basis. This income surtax results in a revenue neutral bill.

I have two amendments for the committee to consider that would eliminate the tax shift from individuals to both individuals and corporations, which was not the intention in drafting this legislation. The first amendment to consider results in a direct replacement of the property tax on primary residences by the income surtax for individuals only. The second amendment to consider, which I prefer, expands the property tax credit to all property with a replacement of the property tax by the income surtax on both individuals and corporations.

HB 1545 attempts to give people true property ownership, to no longer be tenants in their own home, and to free themselves and their property from bondage. It is a recognition that economic wealth can only be measured by the value at exchange, that wealth is only created by applying human effort to the forces of nature through the use of capital (formerly accumulated wealth), and that property tax is an attack on this accumulated wealth. There are elements of this recognition in how agricultural land is valued based on prior production and how commercial property may be valued based on income. It is my hope that with the passage of HB 1545 we may fully recognize these truths.

Chairman Headland and fellow Members of the Committee, I thank you for your time today and urge a unanimous DO PASS recommendation on House Bill 1545.

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In 2017 Session Senate Bill 2206 was passed which called for a study of the property tax system, with emphasis on the feasibility and desirability of providing property tax reform and relief. The study must include consideration of all property classifications and taxing districts and evaluate historical fluctuations in property values, the transparency of the property tax system, the processes and procedures available to taxpayers to contest valuations and assessments, the manner in which property tax information is provided to taxpayers, the process of determining taxing district budgets, and taxpayer participation and input in the property tax system.

- Interim Taxation – Tuesday, August 8, 2017
- Taxation of Real and Personal Property memo
- Property Tax Year Significant Dates memo
- Property Tax System Background memo
  - General Property Taxes by County
  - Percent of Property Taxes by Taxing District

- Interim Taxation – Wednesday, February 14, 2018
- Property Tax Exemptions memo
- Property Tax Exemptions for New Residential Property

19.0535.01002  
Title.

Prepared by the Legislative Council staff for  
Representative Ertelt  
January 22, 2019

# 2  
HB 1545  
1-30-19  
p-1

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1545

Page 6, line 6, after the fourth underscored comma insert "and"

Page 6, line 6, remove the fifth underscored comma

Page 6, line 7, remove "and corporation"

Page 6, line 7, replace "this chapter" with "section 57-38-30.3"

Renumber accordingly

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1545

- Page 1, line 2, remove "for property"
- Page 1, line 3, remove "used as a primary residence"
- Page 1, line 15, replace "Primary residence property" with "Property"
- Page 1, line 16, replace "An individual" with "A property owner"
- Page 1, line 17, replace "individual's primary residence" with "owner's property"
- Page 1, line 17, remove ". A reduction under this"
- Page 1, line 18, replace "section applies regardless of whether the individual is the head of a family" with "if the property is not exempt from property taxes pursuant to any other provision of law"
- Page 1, line 19, remove "An estate or trust, or a corporation or passthrough entity that owns residential property"
- Page 1, remove lines 20 through 24
- Page 2, remove lines 1 through 9
- Page 2, line 10, replace "4. Individuals residing together, who are not spouses or dependents, who are co-owners" with "Co-owners"
- Page 2, line 11, replace "the" with "a"
- Page 2, line 11, remove "each"
- Page 2, line 11, replace the second "a" with "the"
- Page 2, line 12, remove "or 2"
- Page 2, line 12, replace "their ownership interests" with "each owner's interest"
- Page 2, remove lines 13 through 19
- Page 2, line 20, replace "6." with "3."
- Page 2, line 24, replace "7." with "4."
- Page 2, line 24, replace "6" with "3"
- Page 2, line 26, replace "8." with "5."
- Page 2, line 27, replace "the full name and address of the" with "identifying information for the"
- Page 3, line 1, replace "9." with "6."
- Page 3, line 7, replace "10." with "7."
- Page 3, line 13, replace "11." with "8."
- Page 3, line 15, replace "12." with "9."

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Page 3, line 15, replace "individual" with "property owner"

Page 3, remove lines 17 through 27

Page 3, line 28, replace "14." with "10."

Page 3, line 29, remove "full name of each"

Page 3, line 30, replace "individual for whom" with "identifying information for each applicant for which"

Page 4, line 5, replace "15." with "11."

Page 4, line 6, replace "14" with "10"

Page 4, line 13, replace "16." with "12."

Page 4, line 17, replace "17." with "13."

Page 4, line 21, replace "18." with "14."

Page 4, line 24, replace "an individual or entity" with "a property owner"

Page 5, line 18, remove "primary residence"

Page 6, line 11, remove "primary residence"

Page 7, line 11, overstrike "and used"

Page 7, line 12, remove "otherwise would"

Page 7, remove line 13

Page 7, line 14, remove "the property was subject to assessment under chapter 57-02"

Page 7, line 14, overstrike ", and the mobile"

Page 7, overstrike line 15

Page 7, line 16, overstrike "the person claiming the exemption" and insert immediately thereafter "otherwise would qualify for the property tax credit under section 1 of this Act if the property was subject to assessment under chapter 57-02"

Renumber accordingly

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Introduced by

Representatives Ertelt, Hoverson

1 A BILL for an Act to create and enact a new section to chapter 57-02 and a new section to  
 2 chapter 57-38 of the North Dakota Century Code, relating to a property tax credit ~~for property~~  
 3 ~~used as a primary residence~~ and a surtax on income; to amend and reenact subsection 1 of  
 4 section 57-02-08.3, section 57-02-11.1, subsection 1 of section 57-23-06, and section 57-55-10  
 5 of the North Dakota Century Code, relating to the homestead tax credit for special  
 6 assessments, townhouse property, abatement actions, and mobile home exemptions; to repeal  
 7 subsection 20 of section 57-02-08, subsection 22 of section 57-02-08, subsection 26 of section  
 8 57-02-08, and sections 57-02-08.1, 57-02-08.2, and 57-02-08.8 of the North Dakota Century  
 9 Code, relating to the property tax exemption for disabled persons, the homestead tax credit,  
 10 and the property tax credit for disabled veterans; to provide a penalty; and to provide an  
 11 effective date.

12 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

13 **SECTION 1.** A new section to chapter 57-02 of the North Dakota Century Code is created  
 14 and enacted as follows:

15 **Primary residence propertyProperty tax credit - Certification - Distribution.**

- 16 1. An individualA property owner is entitled to receive a reduction equal to the taxable  
 17 valuation of the individual's primary residenceowner's property as provided in this  
 18 section. A reduction under this section applies regardless of whether the individual is  
 19 the head of a family if the property is not exempt from property taxes pursuant to any  
 20 other provision of law.
- 21 2. An estate or trust, or a corporation or passthrough entity that owns residential property  
 22 used as part of a farming or ranching operation is entitled to a reduction as provided in  
 23 subsection 1 if that residential property is not exempt from property taxes as a farm  
 24 residence and is occupied as a primary residence, as of the assessment date of the

1 taxable year, by an individual who is a beneficiary of the estate or trust or who holds  
2 an ownership interest in the corporation or passthrough entity. Either the occupant or  
3 the entity that owns the residence may be the applicant for purposes of this subsection  
4 and the definition of primary residence under subsection 13. An estate, trust,  
5 corporation, or passthrough entity may not claim a reduction for more than one  
6 property under this subsection.

7 ~~3.~~ The reduction under subsection 1 or 2 continues to apply if the individual does not  
8 reside in the primary residence because the individual's absence is due to  
9 confinement in a nursing home, hospital, or other care facility, for as long as that  
10 confinement lasts and the portion of the primary residence previously occupied by the  
11 individual is not rented to another individual.

12 ~~4.~~ Individuals residing together, who are not spouses or dependents, who are  
13 co-owners ~~Co-owners of the~~ property are each ~~entitled to a percentage of the full~~  
14 reduction under subsection 1 or 2 equal to their ownership interest ~~each owner's~~  
15 interest in the property.

16 ~~5.~~ The owner of a parcel of commercial property is entitled to receive a reduction equal to  
17 the taxable valuation attributable to the portion of commercial property occupied by the  
18 owner as the owner's primary residence. If a parcel of commercial property is owned  
19 in whole or in part by a corporation or passthrough entity, the reduction under this  
20 subsection applies to that property only if each individual having an ownership interest  
21 in the corporation or passthrough entity resides in a primary residence eligible for the  
22 reduction under subsection 1 or 2.

23 ~~6.3.~~ To claim a reduction under this section, an applicant must sign and file with the  
24 assessor, by October first of the year for which a reduction is claimed, a claim form  
25 containing a verified statement of facts establishing the applicant's eligibility as of  
26 February first of that year.

27 ~~7.4.~~ The assessor shall attach the statement filed under subsection 6.3 to the assessment  
28 sheet and shall show the reduction on the assessment sheet.

29 ~~8.5.~~ The tax commissioner shall prescribe, design, and make available all forms necessary  
30 to effectuate this section. Claim forms must include the full name and address of  
31 the identifying information for the applicant and any other information prescribed by the

1 tax commissioner. The county director of tax equalization shall make these forms  
2 available to applicants upon request.

3 9.6. A reduction under this section is valid for the entire taxable year for which the  
4 application was approved, without regard to any change of ownership of the property  
5 which occurs after the assessment date. A reduction remains effective for succeeding  
6 taxable years without the owner filing a claim for the exemption, but the assessor may  
7 require the owner to file a renewed claim or verify eligibility for succeeding taxable  
8 years.

9 10.7. If any applicant is found to have fraudulently claimed a reduction under this section to  
10 which that applicant is not entitled, all reductions under this section for that applicant  
11 for that taxable year must be canceled. If an applicant received a reduction that is  
12 canceled under this section, the auditor of the county in which the property is located  
13 shall enter the amount of the canceled reduction as omitted property on the  
14 assessment roll of property that has escaped taxation.

15 11.8. Determinations concerning eligibility for a reduction under this section may be  
16 appealed through the informal equalization process and formal abatement process.

17 12.9. This section does not reduce the liability of any individual property owner for special  
18 assessments levied upon any property.

19 ~~13. For the purposes of this section:~~

20 ~~a. "Dependent" has the same meaning it has for federal income tax purposes.~~

21 ~~b. "Owned" means the applicant holds a present ownership interest, including~~  
22 ~~ownership in fee simple, holding a present life estate or other terminable present~~  
23 ~~ownership interest, or being a purchaser under a contract for deed, but does not~~  
24 ~~include a mere right of occupancy or a tenancy under a lease.~~

25 ~~c. "Primary residence", for purposes of a residential property taxable valuation~~  
26 ~~reduction under this section, means a dwelling in this state owned and occupied~~  
27 ~~by the applicant as that applicant's primary residence as of the assessment date~~  
28 ~~of the taxable year and which is not exempt from property taxes as a farm~~  
29 ~~residence.~~

30 14.10. Before April first of each year, the county auditor of each county shall certify to the tax  
31 commissioner, on forms prescribed by the tax commissioner, the full name of each

1 individual for whom identifying information for each applicant for which the reduction  
2 under this section was allowed for the preceding year, the legal description of the  
3 property, the taxable value of the property, the dollar amount of each reduction in  
4 taxable value allowed, and the total of the tax mill rates for the preceding year of all  
5 taxing districts in which the property was contained, exclusive of any state mill rates,  
6 and any other information prescribed by the tax commissioner.

7 15.11. By June first of each year, the tax commissioner shall review the certifications under  
8 subsection 4410, make any required corrections, and certify to the state treasurer for  
9 payment to each county the sum of the amounts computed by multiplying the  
10 reduction allowed for each qualifying property in the county for the preceding year by  
11 the total of the tax mill rates for the preceding year of all taxing districts in which the  
12 property was contained. In reviewing certifications, the tax commissioner may refer to  
13 any income tax return information or other information available to the tax  
14 commissioner.

15 16.12. Upon receipt of the payment from the state treasurer, the county treasurer shall  
16 apportion and distribute the payment without delay to the county and to the taxing  
17 districts of the county on the same basis the general real estate tax for the preceding  
18 year is apportioned and distributed.

19 17.13. The tax commissioner shall certify annually to the state treasurer for deposit in the  
20 state medical center fund the amount computed by multiplying one mill times the  
21 reduction allowed under this section for the preceding year for all eligible property in  
22 the state.

23 18.14. Supplemental certifications by the county auditor and the tax commissioner and  
24 supplemental payments by the state treasurer may be made after the dates prescribed  
25 in this section to make any corrections necessary because of errors or approval of any  
26 application for equalization or abatement filed by an individual or entity a property  
27 owner because all or part of the reduction under this section was not allowed.

28 **SECTION 2. AMENDMENT.** Subsection 1 of section 57-02-08.3 of the North Dakota  
29 Century Code is amended and reenacted as follows:

- 30 1. Any person who has qualified for the property tax credit provided for in section  
31 57-02-08.11 of this Act may elect to also qualify for an additional homestead credit

1 against that person's homestead for the portion of any special assessment levied by a  
2 taxing district which becomes due for the same year. The total amount of credits  
3 allowed for any one property must not exceed six thousand dollars excluding any  
4 interest charged by the body levying the special assessment. This credit may be  
5 granted only at the election of the qualifying person. The person making the election  
6 shall do so by filing with the county auditor a claim for the special assessment credit  
7 on a form prescribed by the tax commissioner. The claim must be filed with the county  
8 auditor on or before February first of the year in which the special assessment  
9 installment thereof becomes payable.

10 **SECTION 3. AMENDMENT.** Section 57-02-11.1 of the North Dakota Century Code is  
11 amended and reenacted as follows:

12 **57-02-11.1. Townhouses - Common areas - Assessment and taxation.**

13 Townhouse property must be classified and valued as is other property except that the  
14 value of the townhouse property must be increased by the value added by the right to use any  
15 common areas in connection with the townhouse development. The common areas of the  
16 development may not be separately taxed. The value of a common area of the townhouse  
17 development must be assessed in an equal amount to each townhouse in the development  
18 unless a declaration setting out a different apportionment is recorded in the office of the county  
19 recorder. The total value of the townhouse property, including the value added as provided  
20 herein, must have the benefit of any homestead primary residence property tax credit under  
21 section 57-02-08.11 of this Act or other special classification if the townhouse otherwise  
22 qualifies.

23 **SECTION 4. AMENDMENT.** Subsection 1 of section 57-23-06 of the North Dakota Century  
24 Code is amended and reenacted as follows:

- 25 1. Within ten days after receiving an application for abatement, the city auditor or the  
26 township clerk shall give the applicant a notice of a hearing to be held before the  
27 governing body of the city or township, or such other committee as it may designate, in  
28 which the assessed property is located. Said hearing must be set for no more than  
29 sixty days after the date of the notice of hearing, and in any event, must be held  
30 before the recommendations provided for in subsection 2 are made. The applicant  
31 may waive, in writing, the hearing before such governing body or designated

1 committee at any time before the hearing. Any recommendations provided for in  
2 subsection 2 must be transmitted to the county auditor no more than thirty days after  
3 the date set for the hearing. ~~The provisions of this subsection do not apply to~~  
4 ~~applications for abatement pursuant to section 57-02-08.2.~~

5 **SECTION 5.** A new section to chapter 57-38 of the North Dakota Century Code is created  
6 and enacted as follows:

7 **Surtax on income.**

- 8 1. An additional tax, or surtax, is imposed on the income of every individual, estate, trust,  
9 and corporation that is required to file an income tax return pursuant to this chapter.  
10 The surtax must be placed on the state income tax return as a separate line item  
11 entitled "property tax surtax" and paid annually by each taxpayer.  
12 2. The surtax applied to income tax filers must be calculated separately for each county  
13 by dividing the total amount certified for the ~~primary residence~~ property tax credit in  
14 section 1 of this Act in each county in the previous taxable year by the number of filers  
15 in each county in the previous taxable year.  
16 3. For purposes of administering this section, the provisions of this chapter pertaining to  
17 the administration of income tax, including the withholding of income taxes, the  
18 payment of income taxes, the payment of interest and penalties on income taxes,  
19 refunds, attachment of liens for failure to pay the tax, and penalties for failure to  
20 comply with the provisions of this chapter, govern the administration of the surtax  
21 levied under this section.

22 **SECTION 6. AMENDMENT.** Section 57-55-10 of the North Dakota Century Code is  
23 amended and reenacted as follows:

24 **57-55-10. Exemptions - Exceptions.**

- 25 1. A mobile home described in this subsection to the extent herein limited is exempt from  
26 taxation under this chapter; provided, that the mobile home shall have a tax permit as  
27 provided in section 57-55-06:  
28 a. If it is owned and used as living quarters of a military person on active military  
29 duty in this state who is a resident of another state.  
30 b. If it is owned and occupied by a welfare recipient, provided the mobile home is  
31 not permanently attached to the land and classified as real property. For the

- 1 purposes of this subdivision, "welfare recipient" means any person who is  
2 certified to the county director of tax equalization by the county social service  
3 board as receiving the major portion of income from any state or federal public  
4 assistance program.
- 5 c. ~~If it is owned and used as living quarters by a disabled veteran or unremarried~~  
6 ~~surviving spouse who meets the requirements of subsection 20 of section~~  
7 ~~57-02-08 or section 57-02-08.8.~~
- 8 d. ~~If it is owned and used as living quarters by a permanently and totally disabled~~  
9 ~~person or unremarried surviving spouse who meets the requirements of~~  
10 ~~subsection 20 of section 57-02-08.~~
- 11 e. ~~If it is owned and used as the living quarters for a blind person who meets the~~  
12 ~~requirements of subsection 22 of section 57-02-08.~~
- 13 f. If it is owned **and used** by a person who uses it as living quarters and who  
14 qualifies for the homestead credit provided in section 57-02-08.1 otherwise would  
15 qualify for the primary residence property tax credit under section 1 of this Act if  
16 the property was subject to assessment under chapter 57-02, and the mobile  
17 home shall be regarded for the purposes of this exemption as the homestead of  
18 the person claiming the exemption otherwise would qualify for the property tax  
19 credit under section 1 of this Act if the property was subject to assessment under  
20 chapter 57-02.
- 21 2. This chapter does not apply to a mobile home that:
- 22 a. Is used only for the temporary living quarters of the owner or other occupant  
23 while the person is engaged in recreational or vacation activities, provided the  
24 unit:
- 25 (1) Displays a current travel trailer license; or
- 26 (2) Is a park model trailer that is used only for seasonal or recreational living  
27 quarters and not as a primary residence, and which is located in a trailer  
28 park or campground, and for which the owner has paid a park model trailer  
29 fee under section 39-18-03.2. For purposes of this paragraph, "park model"  
30 trailer means a recreational vehicle not exceeding forty feet [12.19 meters]  
31 in length which is primarily designed to provide temporary living quarters for

1 recreation, camping, or seasonal use, is built on a single chassis, is  
2 mounted on wheels, has a gross trailer area not exceeding four hundred  
3 square feet [37.16 square meters] of enclosed living space in the setup  
4 mode, and is certified by the manufacturer as complying with American  
5 national standards institute standard A119.5.

6 b. Qualifies as a farm residence as described by subsection 15 of section 57-02-08,  
7 provided such mobile home is permanently attached to a foundation.

8 c. Is permanently attached to a foundation and is assessed as real property,  
9 provided the owner of such mobile home also owns the land on which such  
10 mobile home is located or is in possession of the real property under the terms of  
11 a lease in recordable form which has a term that continues for at least twenty  
12 years after the date of execution with the consent of the lessor of the real  
13 property.

14 d. Is owned by a licensed mobile home dealer who holds such mobile home solely  
15 for the purpose of resale, and provided that such mobile home is not used as  
16 living quarters or as the place for the conducting of any business.

17 **SECTION 7. REPEAL.** Subsection 20 of section 57-02-08 of the North Dakota Century  
18 Code is repealed.

19 **SECTION 8. REPEAL.** Subsection 22 of section 57-02-08 of the North Dakota Century  
20 Code is repealed.

21 **SECTION 9. REPEAL.** Subsection 26 of section 57-02-08 of the North Dakota Century  
22 Code is repealed.

23 **SECTION 10. REPEAL.** Sections 57-02-08.1, 57-02-08.2, and 57-02-08.8 of the North  
24 Dakota Century Code are repealed.

25 **SECTION 11. EFFECTIVE DATE.** Section 5 of this Act is effective for taxable years  
26 beginning after December 31, 2019, and the remainder of this Act is effective for taxable years  
27 beginning after December 31, 2018.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1545

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of replacing the revenue generated by property tax with an alternative funding source.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PROPERTY TAX REVENUE REPLACEMENT.** During the 2019-20 interim, the legislative management shall consider studying the feasibility and desirability of providing an alternative funding mechanism for the revenue generated from property tax applied to one or more classifications of property. The study must consider alternative funding mechanisms while avoiding funding mechanisms that could result in further encumbrances being placed on real property. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-seventh legislative assembly."

Renumber accordingly

19.0535.01004  
Title.

Prepared by the Legislative Council staff for  
Representative Ertelt  
February 1, 2019

#2  
HB 1545  
2-4-19

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1545

Page 6, line 17, after "tax" insert "with the exception of liens on real property"

Renumber accordingly

Testimony in Support of House Bill 1545  
Rep. Sebastian Ertelt  
ND District 26

Chairman Cook and Members of the Senate Finance and Taxation Committee,

For the record, I am Representative Sebastian Ertelt representing District 26 in southeast North Dakota, here to introduce to you House Bill 1545.

Wealth is only created by applying human effort to the forces of nature through the use of capital (formerly accumulated wealth). Property tax is an attack on this accumulated wealth. True economic wealth can only be measured by the value at exchange. Property tax is a tax on potential wealth and is one of the most egregious taxes there is. It is a consumptive tax which continually eats away at what a person possesses and makes of them tenants, not owners, servants, not masters.

House Bill 1545 did not begin as a study. It was an effort to provide significant property tax reform and relief. Something desired for many years by most ND property taxpayers.

HB 1545 as introduced would have provided for a full property tax credit on primary residences and shifted the tax revenue source to a surtax on income, leaving in place the farm residence exemption and similar provisions of the homestead tax credit (e.g. nursing home exemption). It would have also entitled co-owners to the credit at the rate of their ownership share and allowed commercial property owners to claim the portion that constitutes their residence.

The system for property valuation, equalization, and abatement would have remained. The bill did not address special assessments. County auditors would certify the claims to the tax commissioner who in turn would certify the amount payable to the county treasurers by the state treasurer. The funds for payment would come from an income surtax applied to all income taxpayers equally on a county by county basis, making it a revenue neutral bill.

One mistake I made in drafting the original bill was a shift from tax on residential property to corporate income tax. An amendment was offered to directly replace property tax on primary residences by an income surtax for individuals only. Another amendment was offered to replace property tax on all property by an income surtax on both individuals and corporations. Neither of these amendments were considered. The House Finance and Taxation Committee was intrigued by this concept, but given the substantial change to current tax policy, the Committee decided to propose a study instead of directly address the property tax issue.

Chairman Cook and Members of the Committee, House Bill 1545 as amended would give more purpose and focus to the Interim Taxation Committee to study alternatives to property tax that would give the people of our state true property ownership. I thank you for your time today and urge a unanimous DO PASS recommendation on House Bill 1545.