

FISCAL NOTE
Requested by Legislative Council
01/12/2019

Bill/Resolution No.: SB 2237

- 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
Revenues						
Expenditures						
Appropriations						

- 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
Counties			
Cities			
School Districts			
Townships			

- 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).*

SB 2237 creates a new income tax credit or a deduction that can be claimed by a business that reimburses an employee for amounts the employee pays to provide child care for a minor under the legal guardianship of the employee.

- 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 SB 2237 allows an income tax credit to a corporation equal to the amount paid to reimburse an employee for child care costs the employee incurs and pays as a legal guardian of a minor. The child care must be provided by a North Dakota-licensed child care provider. The credit is allowed in the tax year the reimbursement amount is paid. If the credit amount is more than the corporation's tax liability, the corporation may apply the unused portion against its tax liability in subsequent tax years.

Section 2 of SB 2237 allows an income tax deduction for employers that are not corporations, but file as individuals, who reimburse employees for child care costs. The deduction is equal to twice the amount paid by the business to reimburse employees for qualified child care expenditures.

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.*

If enacted, SB 2237 will potentially reduce state general fund revenues for the 2019-21 biennium. The amount of the reduction cannot be determined because it is not known to what extent that businesses currently reimburse employees for child care expenses, or the amount they may choose to do so if SB 2237 is enacted.

- 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: 01/21/2019

2019 SENATE FINANCE AND TAXATION COMMITTEE

SB 2237

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2237
1/22/2019
Job # 31186

- Subcommittee
 Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to a corporate income tax credit and an employer deduction for reimbursement of employee child care expenditures; and to provide an effective date.

Minutes:

Attachments: 1-2

Chairman Cook: Called the hearing to order on SB 2237.

Senator JoNell Bakke, District 43, Grand Forks: Introduced SB 2237. See attachment #1. I just left Judiciary, where we had a very emotional testimony on the need for licensed childcare in our state. There were three women there who had their kids in unlicensed childcare and all three of them were seriously injured and abused. It gave me more support for my belief that we need to have licensed childcare. The intent of giving a tax credit of double what they gave their employees to smaller businesses was that if you have a large corporation, it is much more possible for them to give that money. A smaller company might want to do this and so they would get double the tax credit. When this bill was heard in the house, there were several amendments that they felt clarified the bill. I had legislative council draw up those amendments. I will leave it to the discretion of the committee to see if you want those.

Chairman Cook: When was this Senate bill heard in the house?

JoNell Bakke: No, there was a House bill very similar to this and these are some of the amendments that the House proposed

Senator Patten: It doesn't show a fiscal note attached to this.

Senator Bakke: I wasn't given one.

Chairman Cook: I have a fiscal note.

Senator Patten: That is what I was asking, there are no numbers or value shown.

Chairman Cook: You mentioned, LLP's are small corporations. I do not think that is covered in section 2.

Senator Bakke: That is covered in section 2.

Arik Spencer, President and CEO of the Greater North Dakota Chamber (GNDC): Testified in favor of the bill. We believe in incentive based ideas to help employers solve work force issues. It is always preferable to mandate. We know you are going to have a lot of bills related to addressing work force issue. We simply ask that you give them thoughtful consideration.

Chairman Cook: Do you believe the corporations should be treated differently than the small businesses and self-employers?

Arik Spencer: We believe that all businesses should be treated equally.

Jennifer Greuel, Economic Development Association of North Dakota (EDND): Testified in favor of the bill. See attachment #2. We just express out support for anything addressing work force availability. I do have facts on my testimony regarding the average daycare cost. I will stand for any question.

Matt Peyerl, Tax Department: Testified neutrally for SB 2237. There was a similar House bill and I wasn't at that hearing but I called Joe Becker and he did provide similar input to that committee and maybe that is behind some of the amendments. Regardless, I will share those with you. Regarding section 2, that is an actual deduction from income. That is different that a tax income. Section 1 is a corporate income tax credit. It is 100% dollar per dollar credit. If you spend \$1000 on child care, you get \$1000 credit on your state taxes. Section 2 deduction, is if you spend \$1000 on child care, you get a \$1000 deduction which might save you 2% or whatever your tax rate is and then double that. It is still much smaller. The other item is that our read of section 2 relates to an individual tax payer that is an employer, and it sounds like the intent is that it would apply to pass through any of these sectors as corporations and partnerships as well. That might also be addressed in some of those pending amendments.

Chairman Cook: Closed the hearing on SB 2237.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2237
1/23/2019
Job # 31304

- Subcommittee
 Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to a corporate income tax credit and an employer deduction for reimbursement of employee child care expenditures; and to provide an effective date.

Minutes:

Attachments: 1

Chairman Cook: We will call the Senator Finance and Tax Committee to order. This is Senator Bakke's attempt to get child care paid for by the state by giving corporate employers to have a deduction. There is no fiscal note. If you put a law in place where an employer who pays your child care for you, can deduct the whole cost from his tax, then pretty much every employer is going to offer it and the state is going to be paying for all child care. That is going to have a huge cost. It would be a sweet deal but I do not think it is one that we can afford.

Senator Dotzenrod: It looks like the credit is a 100% credit. It is not like they can cover 1/3 of the cost. It is all there. I have those amendments that she had with her. They are at my desk. I do not know what they do. I will run up and get them. Distributed proposed amendments. See attachment #1. This would mean that they would apply to all employers; partnerships, sole proprietorships, and not just those that are corporate. It wouldn't have to be an incorporated business.

Chairman Cook: The original bill wouldn't have to be an incorporate business either but if you went to incorporated, you got a deduction of your income rather than a credit.

Senator Dotzenrod: It's a big expansion on the kinds of employers that would be eligible.

Chairman Cook: It allows a carry over, until it is all gone.

Senator Dotzenrod: Would it have the effect of meaning free child care paid by the state.

Senator Patten: That is how I read it.

Chairman Cook: Child care would also go up rather quickly.

Senator Unruh: If the state was going to pay for my child care, my kids are just on the verge where they are not in child care anymore, but if the state was going to pay for it, I may put them back in. That would increase the cost of childcare most definitely. I think there would be a lot of people in the same situation.

Senator Dotzenrod: You could argue that it promotes placing children in child care as opposed to finding alternatives.

Senator Patten: You could argue that one of the child's parents could be at home and still put their child in day care and have someone pay for it.

Senator Unruh: I would move a Do Not Pass on SB 2237.

Senator Patten: Seconded.

Chairman Cook: Any discussion?

Senator Kannianen: The problem we have in the state is the shortage of daycare providers. We don't have a problem with them not getting paid, we just have a shortage of the providers. This would only increase that problem.

Senator Dotzenrod: I recognize there are issues in this bill that would make it difficult to go along with this. I will vote against the motion just in sympathy for Senator Bakke having her heart in the right place on this, but I can understand where there would be issues if this would be adopted. I understand what the committee needs to do.

A roll call vote was taken. 5 yeas, 1 nays, 0 absent.

Motion carried.

Senator Patten will carry the bill.

Date: 1-23-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2237

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 Unruh Seconded By Patten

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 Patten

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

REPORT OF STANDING COMMITTEE

SB 2237: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO NOT PASS (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). SB 2237 was placed on the Eleventh order on the calendar.

2019 TESTIMONY

SB 2237

SB2237

Senator JoNell Bakke

Probably one of the most important decisions that a parent can make is who they will entrust with their most precious gift, their child. Eleven million children under the age of 5, which is when critical brain development is happening, are enrolled in child care centers in the United States. This can be in a licensed child center or a homebased facility. The availability of child care and the cost are a major factor in determining if both parents work or if one stays home to care for the children. Families often have a difficult time finding placement for newborns and often need to sign up before the child is even born. North Dakota is no exception to this problem.

SB2237 would address this problem of quality and affordable child care in North Dakota. This bill would give corporate income tax credit for corporations who provide assistance to their employees with licensed child care expenses. Often this added financial benefit makes it possible for both parents to remain in the work force. Research has shown that when the parents feels that they are receiving high-quality child care, they are more productive at work and on top of that their child is learning school readiness skills, such as learning to share, following directions, cooperative play, and a host of other skills.

In SB2237, if a corporation assists their employees with licensed child care expenses, they would receive an income tax credit equal to the amount given to the employee. For smaller businesses, a tax credit of double what they gave to their employees, would be given. This program would give the employees help with the financial obligations of good quality child care and give the employer a tax credit.

That concludes my testimony and I will stand for questions at this time.



Testimony of Jennifer Greuel
Economic Development Association of North Dakota (EDND)
In Support of SB 2237
January 22, 2019

Chairman Cook and members of the Senate Finance and Taxation Committee:

My name is Jennifer Greuel and I am testifying on behalf of the Economic Development Association of North Dakota in support of SB 2237.

EDND represents large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota to develop more vibrant communities and improve quality of life.

Workforce availability is the most significant challenge facing North Dakota businesses, limiting the growth potential of the state's economy. EDND supports the development of workforce attraction, development and retention strategies that address the needs of the state's companies.

Childcare availability and cost are major issues facing young families making up North Dakota's potential workforce pool. Childcare expenses can result in fewer workers, detracting from the state's productivity and ability to attract new talent into the state. According to Childcare Aware, the average cost of sending an infant to a daycare center in North Dakota is more than \$9,000 per year, with some centers charging up to \$16,640 per year.

SB 2237 encourages companies to use childcare reimbursement as a creative way to attract and retain talent.

Thank you for the opportunity to address the committee and express support for this bill and for your continued commitment to working together to address North Dakota's workforce needs.

January 21, 2019

$\frac{1}{23}$
SB 2237
#1 pg.1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2237

Page 1, line 2, replace "2" with "7"

Page 1, line 2, replace "a corporate" with "an"

Page 1, line 3, remove "and an employer deduction"

Page 1, line 8, replace "**Corporate income**" with "**Income**"

Page 1, line 9, replace "corporation" with "taxpayer that is an employer in this state"

Page 1, line 10, after "57-38-30" insert "or 57-38-30.3"

Page 1, line 11, replace "corporation" with "taxpayer"

Page 2, replace lines 1 through 8 with:

"SECTION 2. A new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code is created and enacted as follows:

Income tax credit for reimbursement of employee child care expenditures under section 1 of this Act."

Renumber accordingly