

FIRST ENGROSSMENT
with Senate AmendmentsSixtieth
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1403

Introduced by

Representatives Onstad, DeKrey, D. Johnson, Weisz

Senators Klein, Taylor

1 A BILL for an Act to create and enact a new section to chapter 57-38 and a new subsection to
2 section 57-38-30.3 of the North Dakota Century Code, relating to an individual and corporate
3 income tax credit for operation of a microbusiness; and to provide an effective date.

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

5 **SECTION 1.** A new section to chapter 57-38 of the North Dakota Century Code is
6 created and enacted as follows:

7 **Microbusiness income tax credit.**

8 **1. For purposes of this section:**

- 9 a. "Actively engaged" in the operation of a microbusiness means involvement on
10 a continuous basis in the daily management and operation of the business.
- 11 b. "Director" means the director of the department of commerce division of
12 economic development and finance.
- 13 c. "Economically viable small community" means a community with a population
14 of at least one hundred but fewer than two thousand, which has one or more
15 of the following:
- 16 (1) An active community economic development organization;
- 17 (2) An ongoing relationship with a regional or urban economic
18 development organization; or
- 19 (3) An existing city sales tax, all or part of the revenue from which is
20 dedicated to economic development.
- 21 d. "Microbusiness" means a business employing five or fewer employees inside
22 an economically viable small community.
- 23 e. "New employment" means the amount by which the total compensation paid
24 during the taxable year to North Dakota resident employees exceeds the total

1 compensation paid to North Dakota resident employees in the taxable year
2 before the application. For the purposes of calculating the increase in new
3 employment, the employer may not include merit or equity based salary
4 increases, cost of living adjustments, or any other increase in compensation
5 not directly related to the hiring of new employees during the taxable year.

6 f. "New investment" means the increase in the applicant's purchases of
7 microbusiness buildings and depreciable personal property located in this
8 state, not including vehicles required to be registered for operation on the
9 roads and highways of this state, during the taxable year as compared with
10 the previous taxable year. If the buildings or depreciable personal property is
11 leased, the amount of new investment is the increase in average net annual
12 rents multiplied by the number of years of the lease for which the taxpayer is
13 bound, not exceeding ten years. For the purposes of calculating the increase
14 in new investment, the employer may not include any increases in rents for
15 property leased before the current taxable year. Only rents for leases
16 completed in the current taxable year may be included.

17 2. The director shall accept an application for qualification as a microbusiness under
18 this section from a taxpayer that is actively engaged in the operation of a
19 microbusiness or that will establish a microbusiness in which the taxpayer will be
20 actively engaged in or operating within the current or subsequent taxable year.
21 The application must be on a form provided by the director and must contain:

- 22 a. A description of the microbusiness;
23 b. The projected income and expenditures of the microbusiness;
24 c. The market to be served by the microbusiness and the way the expansion
25 addressed the market;
26 d. The amount of projected new investment or employment increases;
27 e. The projected improvement in income or creation of new self-employment or
28 jobs in the area in which the microbusiness is located;
29 f. The nature of the applicant's engagement in the operation of the
30 microbusiness; and
31 g. Any other document, plan, or specification required by the director.

- 1 3. A business may be certified by the director as a microbusiness if:
- 2 a. The applicant is actively engaged in the operation of the microbusiness or will
- 3 be actively engaged in the operation of the microbusiness upon its
- 4 establishment;
- 5 b. The applicant will make new investment or employment in the microbusiness;
- 6 c. The new investment or employment will create new income or jobs in the area
- 7 in which the business is located;
- 8 d. The new business will not directly compete with any established business
- 9 located within fifteen miles of the proposed new business;
- 10 e. The new business will be located in an area determined by the director to be
- 11 an economically viable small community located at least fifteen miles from the
- 12 city limits of a city with a population of two thousand or more; and
- 13 f. The applicant is not closing or reducing its business operation in one area of
- 14 the state and relocating substantially the same business operation in another
- 15 area.
- 16 4. If the applicant meets the requirements of subsection 3, the director shall issue a
- 17 certification letter to the microbusiness. The certification letter must include the
- 18 certification effective date.
- 19 5. The director may not certify more than two hundred qualified businesses as a
- 20 microbusiness.
- 21 6. A taxpayer that is certified as a microbusiness is entitled to tax credits against tax
- 22 liability as determined under section 57-38-29, 57-38-30, or 57-38-30.3 equal to
- 23 twenty percent of the taxpayer's new investment and new employment in the
- 24 microbusiness during the taxable year. A taxpayer may not obtain more than ten
- 25 thousand dollars in credits under this section over any combination of taxable
- 26 years.
- 27 7. The credit under this section may not exceed a taxpayer's liability as determined
- 28 under this chapter for the taxable year. Each year's unused credit amount may be
- 29 carried forward for up to five taxable years.

1 8. The taxpayer only may claim the tax credit under this section by filing a form
2 provided by the tax commissioner and attaching the microbusiness certification
3 letter.

4 9. A partnership, subchapter S corporation, limited partnership, limited liability
5 company, or any other passthrough entity entitled to the credit under this section
6 must be considered to be the taxpayer for purposes of calculating the credit. The
7 amount of the allowable credit must be determined at the passthrough entity level.
8 The total credit determined at the entity level must be passed through to the
9 partners, shareholders, or members in proportion to their respective interests in the
10 passthrough entity.

11 10. The tax commissioner shall prepare a report for the director identifying the
12 following aggregate amounts for the previous calendar year:

13 a. The actual amount of new investment and new employment in the previous
14 calendar year which was reported by taxpayers certified as a microbusiness
15 under this section; and

16 b. The tax credit claimed during the previous calendar year.

17 11. The report required by subsection 10 must be issued by January 1, 2009, and
18 each January fifteenth thereafter. Information may not be included in the report
19 which is protected by the state or federal confidentiality laws.

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

22 A taxpayer filing a return under this section is entitled to the microbusiness income
23 tax credit provided under section 1 of this Act.

24 **SECTION 3. EFFECTIVE DATE.** This Act is effective for taxable years beginning after
25 December 31, 2006.