



TAXATION COMMITTEE

Thursday, September 5, 2024
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Jared Hagert, Chairman, called the meeting to order at 9:30 a.m.

Members present: Representatives Jared Hagert, Jason Dockter, Jim Grueneich, Patrick Hatlestad, Craig Headland, Donna Henderson, Ben Koppelman, Mike Motschenbacher, Vicky Steiner; Senators Justin Gerhardt, Randy D. Lemm, Mark F. Weber

Members absent: Representative Jim Kasper; Senators Jordan L. Kannianen and Merrill Piepkorn

Others present: Senator Janne Myrdal, Edinburg, member of the Legislative Management

Brian Kroshus, Tax Commissioner, Shelli Myers, Tax Department; Linda Svihovec, North Dakota Association of Counties; and Jared Walczak*, Tax Foundation

See Appendix A for additional persons present.

** Attended remotely*

It was moved by Representative Headland, seconded by Representative Dockter, and carried on a voice vote that the minutes of the June 21, 2024, meeting be approved as distributed.

GENERAL INFORMATION

Mr. Jared Walczak, Vice President of State Projects, Tax Foundation, provided information (Appendix B) regarding the economics of income and property tax reform, including a comparison of the economic efficiency of income tax compared to the economic efficiency of property tax.

Mr. Brian Kroshus, Tax Commissioner, provided an overview (Appendix C) of information provided to the Legislative Management regarding the estimated fiscal impact of the initiated constitutional measure related to prohibiting political subdivisions from levying ad valorem tax on real property except for bonded indebtedness until paid.

In response to a question from a committee member, Ms. Linda Svihovec, Research Analyst, North Dakota Association of Counties, provided information related to research conducted by the North Dakota Association of Counties regarding the three highest taxpayers in each county.

ECONOMIC DEVELOPMENT TAX INCENTIVE STUDY

Ms. Katie Ralston Howe, Director, Workforce Development Division, Department of Commerce, provided information (Appendix D) regarding workforce recruitment issues and internship and workforce programs administered by the department. She noted:

- The department created the eOperation iIntern pProgram in 2007 to help employers hire interns in five targeted industries, including energy, advanced manufacturing, value-added agriculture, tourism and technology-based businesses, and health care.
- In the 2023-25 biennium, 62 companies and 225 interns participated in the eOperation iIntern pProgram.

Over 500 companies and 3,500 interns have participated in the program since the program's inception.

- Find the good life in North Dakota is a comprehensive talent attraction initiative that uses targeted marketing and software to collect information from job seekers and connect job seekers with communities and employers in their field. The department is able to track a job seeker's progress ~~as they~~while exploring opportunities in the state.
- 2,148 job seekers have participated in the find the good life in North Dakota marketplace ~~to date~~ and 47 employers have taken advantage of the initiative to diversify recruitment efforts.

In response to questions from committee members, Ms. Ralston Howe noted:

- State incentives for military members and veterans are helpful tools to recruit military members and veterans to the state.
- The department has invested approximately \$12 million in the find the good life in North Dakota initiative.
- The department is analyzing the economic impact of an individual relocating to the state and plans to present the information to the 69th Legislative Assembly.

Ms. Rikki Roehrich, Deputy Director, Division of Community Services, Department of Commerce, provided information (Appendix E) regarding the annual report pertaining to renaissance zone progress, as required by North Dakota Century Code Section 40-63-03(2), and the summary of reports provided by cities that have renaissance zone property included in a tax increment financing district, as required by Section 40-63-03(10). She noted:

- The benefits realized by the 41 projects completed in 2023 amounted to \$3,004,825~~4.50~~ in income tax exemptions and \$5,328,564~~3.51~~ in property tax exemptions.
- Since the inception of the renaissance zone program, 2,101 projects have been approved and 1,634 projects have been completed.
- A 2023 survey of renaissance zone communities indicated renaissance zones created 10 new businesses, 9 business expansions, and 63 new jobs.
- The renaissance zone program is functioning as intended and is serving as a tool for economic development and revitalizing communities.

Ms. Shannon Fleischer, Associate Director, Tax Department, provided information (Appendix F) regarding the annual report (Appendix G) summarizing the information provided by taxpayers that received a sales or use tax exemption for raw materials, single-use product contact systems, and reagents used for biologic manufacturing, as required by Section 57-39.2-04.19. She provided a summary of calendar year 2023 data provided by taxpayers receiving the sales and use tax exemption ~~as follows~~which indicated:

- The total sales and use tax liability exempted was \$1,792,476~~.41~~.
- The total gross payroll for taxpayers receiving the exemption, which includes payroll and taxes paid in multiple states, was \$89,010,581~~0.50~~.
- The total state income tax withheld by the taxpayers, which includes payroll and taxes paid in multiple states, was \$2,232,085~~.28~~.

Ms. Fleischer noted certain information is redacted in the report due to confidentiality concerns, ~~particularly~~ because fewer than five taxpayers applied for the exemption.

Mr. Charles Dendy, General Counsel, Tax Department, ~~-~~ provided a written explanation (Appendix H) regarding the rationale for the redacted information in the report.

Committee members noted it is important to balance the confidentiality of certain taxpayer information with the Legislative Assembly's need to review the information as part of its evaluation of the effectiveness of the sales and

use tax exemption.

After the meeting adjourned, Ms. Ellen Shafer, Senior Director of Communications, Aldevron, provided testimony (Appendix I) regarding the sales and use tax exemption for raw materials, single-use product contact systems, and reagents used for biologic manufacturing.

Ms. Shelli Myers, State Supervisor of Assessments, Tax Department, provided information (Appendix J) regarding supplemental findings and recommendations related to the Tax Commissioner study of property tax transparency required by House Bill No. 1245 (2023). She noted:

- Potential design updates to the property tax statement to increase transparency, including providing more detail regarding legislative tax relief provided to taxpayers.
- Property tax statement software vendors indicated it would be challenging to add graphics on the statement due to the space available on the paper size currently used to print the statements.
- County representatives expressed concerns regarding the inclusion of color printing on the statement, ~~including~~ including due to the increased cost associated with color printing and the availability of color printing equipment.
- Members of the working group met with county officials and representatives from the Information Technology Department who work with the Geographic Information Systems Hub to research the potential cost and path forward to build a statewide property tax information system. Challenges related to implementation of a statewide property tax information website include staff constraints, lack of city information in the current system, lack of city and county online data, lack of data in tribal areas, and an unknown cost for implementation.

In response to questions from committee members, Ms. Myers noted:

- The Tax Commissioner worked with the chairmen of the Finance and Taxation standing committees of the House of Representatives and Senate and Ms. Myers worked with local taxing district representatives to conduct the study.
- The working group did not discuss the use of artificial intelligence to assist in providing increased transparency to taxpayers.
- A final decision has not yet been made regarding the tax statement design that will be used for the upcoming property tax billing cycle.

In response to questions from committee members, Mr. Kroshus discussed the potential to provide additional information to taxpayers in the digital arena to increase property tax transparency ~~in the state~~. He noted the solution to certain property tax transparency issues may be a blend of a digital and paper approach to provide property tax information to taxpayers.

Committee members noted the importance of transparent communication with taxpayers regarding how property tax dollars are spent by the various taxing districts.

AGRICULTURAL COMMODITY STORAGE STRUCTURE PROPERTY TAX EXEMPTION STUDY

Ms. Terin Riley, representing interested persons and potato farmers from Pembina County, provided comments regarding the agricultural commodity storage structure property tax exemption study. She noted, including a definition of "raising agricultural crops" within the definition of "agricultural property" as applied to the farm structure tax exemption limits the discretion of local taxing district officials when determining what property constitutes agricultural property.

Representative Koppelman presented a proposed bill draft [25.0380.01000] to amend the definition of "agricultural property" to include the storage of harvested crops until the crop is delivered to the first end-point user in the definition of the term "raising agricultural crops". He noted the bill draft also would clarify which circumstances are appropriate to apply the seven statutory conditions in Section 57-02-01(1)(a) to determine whether unplatted property or property platted before March 30, 1981, is agricultural property.

Committee members noted a desire to recommend the proposed legislation to address the concerns expressed by several interested parties throughout the interim and to support the consideration of a potential solution to the issue moving forward. Some committee members expressed concern regarding the limited ability for interested persons to provide comments on the proposed legislation.

It was moved by Representative Henderson, seconded by Representative Koppelman, and carried on a roll call vote that the bill draft [25.0380.01000] relating to the definition of "agricultural property" be approved and recommended to the Legislative Management. Representatives Hagert, Dockter, Grueneich, Hatlestad, Headland, Henderson, Koppelman, Motschenbacher, and Steiner and Senators Gerhardt, Lemm, and Weber voted "aye." No negative votes were cast.

Chairman Hagert requested Representative Koppelman to present the bill drafts to the standing committees during the 2025 legislative session.

It was moved by Representative Grueneich, seconded by Representative Steiner, and carried on a voice vote that the Chairman and the Legislative Council staff be requested to prepare a report and the bill drafts recommended by the committee and to present the report and recommended bill drafts to the Legislative Management.

It was moved by Representative Dockter, seconded by Representative Headland, and carried on a voice vote that the committee be adjourned sine die.

No further business appearing, Chairman Hagert adjourned the committee sine die at 1:00 p.m.

Megan J. Gordon
Code Revisor

ATTACH: