



TAXATION COMMITTEE

Wednesday, June 15, 2022
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Dale Patten, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Dale Patten, Scott Meyer*, Merrill Piepkorn, Mark F. Weber; Representatives Dick Anderson, Jason Dockter, Robb Eckert, Patrick Hatlestad, Craig Headland, Jim Kasper, Vicky Steiner

Members absent: Representatives Tom Kading, Ben Koppelman, Wayne A. Trottier

Others present: Senator Donald Schaible, Mott, member of the Legislative Management
Senator Tracy Potter, Bismarck; Representative Mike Nathe, Bismarck
See [Appendix A](#) for additional persons present.

**Attended remotely*

It was moved by Representative Headland, seconded by Representative Hatlestad, and carried on a voice vote that the minutes of the April 6, 2022, meeting be approved as distributed.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Ms. Megan J. Gordon, Counsel, Legislative Council, presented a memorandum entitled [Economic Development Tax Incentive Study - Evaluation Chart](#).

The committee indicated a desire to defer to private sponsor introduction of a bill to eliminate the sunset date on the income tax credit for purchases of manufacturing machinery and equipment for automating manufacturing processes during the next legislative session rather than committee introduction of the bill.

REPORTS

Ms. Melanie Aeschliman, State Supervisor of Assessments, Tax Department, provided information (Appendices [B](#) and [C](#)) regarding the statewide property tax increase report as required by North Dakota Century Code Section 57-20-04. She noted:

- The report includes a comparison of property taxes levied in 2020 with property taxes levied in 2021, broken down by counties, cities, city parks, and school districts; and
- New construction was removed from the comparison.

PROPERTY AND INCOME TAX REFORM AND RELIEF STUDY

Mr. Brian Kroshus, Tax Commissioner, provided information (Appendices [D](#) and [E](#)) regarding the homestead income tax credit and commercial property income tax credit contained in Senate Bill No. 2032 (2007), including challenges and administrative difficulties associated with the income tax credits. He noted:

- Administrative difficulties of Senate Bill No. 2032 included challenges associated with intermingling tax types administered at different levels of government, verification of parcel level data, communication, identifying property owners not subject to state income tax filing requirements, and the certificate program; and
- Tax relief in a fixed amount without intermingling tax types likely would be easier for the Tax Department to administer and be more transparent to the public.

In response to a question from a committee member, Mr. Joseph Becker, Auditor III, Tax Department, noted:

- Approximately \$1.1 million was appropriated to the department to administer the program under Senate Bill No. 2032;
- The department spent most of the appropriation on information technology programming and interactions with counties to upload county parcel information into the department's system so claimed credits could be verified; and
- Counties incurred costs and loss of time related to processing the certificates issued through the program.

Mr. Becker provided information (Appendices [E](#) and [G](#)) relating to individual and corporate income taxes paid based on income level. He noted:

- The individual income tax data provided to the committee includes the number of returns, total net tax liability, average net tax liability, and the effect of the tax relief credit provided in House Bill No. 1515 (2021) for various income levels based on federal adjusted gross income for tax years 2019 through 2021;
- The corporate income tax data provided to the committee includes the number of returns, total net tax liability, and average net tax liability for various income levels based on North Dakota taxable income for tax years 2019 through 2021; and
- The 2021 individual tax year data and the 2020 and 2021 corporate income tax data is incomplete.

Mr. Becker provided information (Appendices [E](#), [H](#), and [I](#)) relating to individual and corporate income tax deductions and credits claimed by taxpayers. He noted:

- The individual and corporate income tax credit data provided to the committee includes the number of returns and credit amount for each individual and corporate income tax credit for tax years 2019 through 2021;
- The individual and corporate income tax deduction data provided to the committee includes the number of returns, deduction amount, and estimated tax reduction attributable to each individual and corporate income tax deduction for tax years 2019 through 2021;
- Supplemental tables provided to the committee include more detailed information specific to each deduction and credit; and
- The 2021 individual tax year data and the 2020 and 2021 corporate income tax data is incomplete.

Mr. Kroshus provided information ([Appendix J](#)) regarding the status of the income tax credit authorized in House Bill No. 1515, including an overview of the qualification criteria, the estimated fiscal impact, and a comparison of the estimated credits to the actual credits awarded to date. He noted:

- The income tax credit is estimated to reduce income tax collections deposited in the general fund by \$211 million for the 2021-23 biennium, including \$104 million in fiscal year 2022 and \$107 million in fiscal year 2023; and
- The department received 405,990 returns as of June 13, 2022, of which 266,947 were eligible for a full or partial credit, with \$101.5 million of credits claimed.

Ms. Gordon presented a memorandum entitled [Property Tax Year Significant Dates](#).

In response to questions from committee members, Ms. Linda Svihovec, Research Analyst, North Dakota Association of Counties, provided information regarding adding a preliminary estimate of special assessments on the written notice of estimated property tax and the flexibility of the property tax deadlines under current law.

Senator Schaible provided information ([Appendix K](#)) regarding potential property tax relief legislation. He noted the potential legislation would include lowering the local contribution under the school funding formula from the current 60-mill requirement to 30 mills applied to the school district's 2022 taxable value.

In response to questions from committee members, Senator Schaible noted the potential tax relief legislation would require school boards to discuss budgets in dollar amounts rather than number of mills, which would encourage transparency and prudent spending.

Representative Nathe commented regarding the potential property tax relief legislation summarized by Senator Schaible. He noted the potential tax relief legislation contemplates locking in taxable valuations at the school district's 2022 value for the biennium for purposes of calculating the local contribution under the school funding formula.

Senator Potter provided information regarding potential property tax relief legislation. He noted the potential legislation would provide for a refundable income tax credit in the amount of 10 percent of property taxes paid on a taxpayer's primary residence.

Chairman Patten discussed the increase in taxable valuation over the last 10 years, the benefits of concentrating on property tax relief through school funding, and the possibility of excluding centrally assessed property from property tax relief legislation.

Chairman Patten reviewed the status of the Taxation Committee directives from the Legislative Management.

No further business appearing, Chairman Patten adjourned the meeting at 12:27 p.m.

Megan J. Gordon
Counsel

Emily Thompson
Legal Division Director

ATTACH:11