

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2272

2001 SENATE FINANCE AND TAXATION

SB 2272

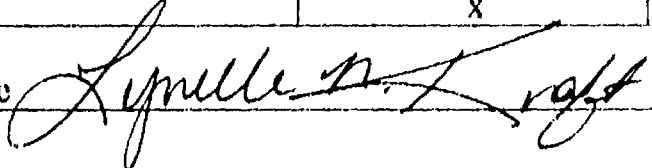
2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2272

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date 1/29/01

| Tape Number | Side A | Side B | Meter # |
|---|--------|--------|----------|
| 1 | x | | 29.6-end |
| | | x | 0-9.3 |
| 2/13/01 - 2 | x | | 47-end |
| | | x | 0-3.5 |
| Committee Clerk Signature  | | | |

Minutes:

Senator Urlacher: Opened the hearing on SB 2272, relating to renaissance zone income tax exemptions for certain purchases or leases of business property in small cities.

Senator Ken Kroeplin: Introduced the bill, testified in support. This bill would allow the very same deduction for a person making \$75,000 investment in a new or expanding business in a renaissance zone in a city of 2,500 or less.

Donnita Wald: ND Tax Dept., neutral. Appeared to answer some questions.

Senator Wardner: If I invested \$75,00 in a renaissance and the first year I owed \$1,000 in state income tax, I would be exempt from paying that?

Donnita Wald: That's correct.

Senator Christmann: Short or long form?

Donnita Wald: Both forms.

Senator Urlacher: What if a partnership is involved?

Donnita Wald: This credit is allowed only for individuals.

Connie Sprynczynatyk: ND League of Cities, appeared to answer question for Senator Stenehjem.

Senator Stenehjem: Under the current renaissance zone for the city of Bismarck, if I came in and bought a building in the zone and did nothing other than move my business in there, would I qualify for the tax deductions?

Connie Sprynczynatyk: Yes. Donnita Wald agreed.

Rich Gray: Manager of this program out of the Division of Community Services, appeared to clarify purchasing requirements.

Senator Stenehjem: Who's going to implement these?

Rich Gray: Local zone authority.

Senator Nichols: Are the benefits usually based on the efforts in these cases?

Rich Gray: Explains. Meter number 42.5-44.2.

Senator Christmann: Asks some questions of Rich. He explains. Meter number 44.4-50.8.

Senator Urlacher: So there's an oversight on each project based on the local criteria?

Rich Gray: Yes.

Senator Stenehjem: Under the existing renaissance zone, what's the exemption in the existing law?

Rich Gray: There are three state exemptions: Single family home, business income exemption, & investor exemption.

Senator Christmann: Who could say no to this?

Rich Gray: You have to look at that city's plan. Some people don't meet the qualifications.

Page 3
Senate Finance and Taxation Committee
Bill/Resolution Number 2272
Hearing Date 1/29/01

Senator Kroeplin: If a project is approved, is it automatic that the local property goes with it? Is that part of the criteria of the whole scheme of thing?

Rich Gray: We don't have to grant anything.

Senator Stenehjem: I would have to be approved in the renaissance zone before I apply and get the tax break?

Rich Gray: Yes.

Senator Urlacher: Closed the hearing. Action delayed.

Discussion held 2/13/01. Meter number 47-end, Side A & 0-3.5, Side B.

Senator Kroeplin: Explained the bill again.

COMMITTEE ACTION:

Motion made by Senator Nichols for a DO PASS, Seconded by Senator Kroeplin. Vote was 4 yeas, 2 nays, 0 absent and not voting. Bill carrier was Senator Kroeplin.

FISCAL NOTE
Requested by Legislative Council
01/22/2001

Bill/Resolution No.: SB 2272

Amendment to:

1A. 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.*

| | 1999-2001 Biennium | | 2001-2003 Biennium | | 2003-2005 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

| 1999-2001 Biennium | | | 2001-2003 Biennium | | | 2003-2005 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2272 creates certain renaissance zone income tax exemptions for investments by individuals in qualifying projects located in small cities. The exemption is up to \$10,000 of income tax per year for five years. The possible fiscal impact of these provisions is unknown.

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

| | | | |
|----------------------|----------------------|-----------------------|----------------|
| Name: | Kathryn L. Strombeck | Agency: | Tax Department |
| Phone Number: | 328-3402 | Date Prepared: | 01/26/2001 |

Date: 2/13/01
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2072

Senate Finance and Taxation Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By Nichols Seconded By Kroeplin

| Senators | Yes | No | Senators | Yes | No |
|-------------------------------|-----|----|----------|-----|----|
| Senator Urlacher-Chairman | ✓ | | | | |
| Senator Wardner-Vice Chairman | ✓ | | | | |
| Senator Christmann | | ✓ | | | |
| Senator Stenehjem | | ✓ | | | |
| Senator Kroeplin | ✓ | | | | |
| Senator Nichols | ✓ | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) 4 No 2

Absent 0

Floor Assignment Kroeplin

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

REPORT OF STANDING COMMITTEE (410)
February 14, 2001 1:18 p.m.

Module No: SR-27-3346
Carrier: Kroeplin
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2272: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO PASS (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2272 was placed on the Eleventh order on the calendar.

2001 HOUSE FINANCE AND TAXATION

SB 2272

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2272

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 12, 2001

| Tape Number | Side A | Side B | Meter # |
|---|--------|--------|---------|
| 1 | X | | 80 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Janice Stein</i> | | | |

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing and read the fiscal note.

SEN. KEN KROEPLIN, DIST. 23, Introduced the bill as the prime sponsor. There are two qualifiers to the bill, that is a city of two thousand, five hundred population or less and the other qualifier is at least a seventy five thousand dollar investment in a new business. This tax credit that is in this legislation, is the very same tax credit that is in the current renaissance zone legislation, that a taxpayer would get for buying a primary residence in the renaissance zone. A business that would be located in one of these small areas, probably wouldn't make a whole lot of money, in the first years, this would allow them to go back to their personal income taxes.

REP. CARLSON Gave an example, are the provisions the same as if I were going to go to Fargo and build condos in a zone, the buyers would be intitled to the income tax credit?

SEN. KROEPLIN I was thinking of an example, if somebody bought a home in a renaissance zone in Fargo, a single family residence, they could use this exemption. We thought it could be helpful in the rural areas to spur economic development.

REP. RENNER How does the present legislation on these renaissance zones work as a tax credit?

SEN. KROEPLIN That is a big question, there are several different categories involved in renaissance zone legislation. I think there are people here that can explain it better then I can.

REP. RENNER I was just wondering if some of this isn't addressed in the bill we had last time.

SEN. KROEPLIN No, it is not, not this particular legislation. This would be in addition to what we have. That is for a business in a rural community, it would be the business that would receive the tax credit. This bill takes it back to the personal tax credit.

REP. HERBEL What is the significance of a twenty five hundred population?

SEN. KROEPLIN That is where the feds recognize between rural and urban.

RICH GRAY, NORTH DAKOTA DIVISION OF COMMUNITY SERVICES, Gave information regarding renaissance zones and credits. We have various exemptions and tax credits. The current law, provides for state tax exemption up to ten thousand dollars per year for five years for a total of fifty thousand dollars for the purchase of a single family home. The second one is for a business that purchases or leases property for use of a business, they will get a state income tax exemption on their income earned from that property location. The third one that is currently in law, deals with the investment. If an investor is purchasing a residential or commercial property, the investor will receive a state tax exemption on their income earned on

that property. There are three corresponding property tax provisions, which is up to the locals.

There is one for a purchase of a single family home, one for the purchase of a business and then one for the investor.

REP. WINRICH Under the current law, the Division of Community Services has set up pools for various sized communities, could you review that?

RICH GRAY What happens there, that pertains to the population break-down that is referred to zero to five thousand, five thousand and one to thirty thousand, and thirty thousand and above, this deals with the renaissance fund corporation. It deals with the two and a half million dollars of tax credits available in that particular realm of the law. What we have done is create three population categories, taken two and a half million dollars and broken it down in the three population categories, so that no one renaissance fund corporation can access the full two and a half million dollars. Our interpretation of that would be, that once you exhaust the full two and a half million dollars worth of credits, and then you have a renaissance fund corporation that has invested at least half of its funds, then there would have to be another two and a half million dollars triggered.

REP. CLARK The way this reads, it says, exempt up to ten thousand dollars on personal tax liability, essentially, this is removing the ten thousand dollar cap.

RICH GRAY The way this is set up right now, it is the same kind of a tax credit that you see for the purchase of a single family home, where somebody purchasing the home will get ten thousand dollars per year of their taxes for five years. It is all of their money, not just something earned.

REP. CLARK I know in this legislation, it has to do with new or expanding business which you will be exempt based upon your income, you could possibly get this exemption on not only your business income and taxes, but also, your personal income?

RICH GRAY You raise an interesting point. This deals with somebody, and it could be somebody else, making that seventy five thousand dollar investment. The first question we ask ourselves is, what is this connected to? Clearly, there needs to be an amendment made to this, that would include the term "what is a zone project" so something is being declared a zone project. Either the seventy five thousand dollars will be declared a zone project, or the new expanding business will be declared a zone project. Somebody will go to that zone authority and say something about his investment in a renaissance zone project.

REP. DROVDAL If I were to take seventy five thousand dollars and go into a community of two thousand population that had a renaissance zone and invest it in any kind of a business, I would get up to ten thousand dollars credit per year for five years off my income tax, what other credits would I also be entitled to?

RICH GRAY As this is written, the only exemption that would occur here, if it is the investor getting that exemption, is going to be the ten thousand dollars, because there is no property tax involved there.

REP. DROVDAL If I was to buy a building on main street and start a business, I would get the ten thousand, I would get depreciation on the building, I could also ask for an exemption in the community, what other credits could I or would I get?

RICH GRAY This issue here, is possibly you would get income earned, I don't think that is clear in here.

REP. DROVDAL I just finished paying my income tax last week, how much money does a person have to make to pay ten thousand in income tax. What bracket are we talking about?

DONNITA WALD, ATTORNEY FOR THE TAX DEPARTMENT Responded to the question by saying "a lot". She stated, they figured about three hundred and ten thousand dollars a couple of years ago.

REP. CLARK My concern over this credit is, the way the zone is set up now, you get a credit against the business, or against your income, this will allow you to take your credit against your business, right?

DONNITA WALD You would get any income earned from that business is exempt. If you had income from any other sources, you could apply this ten thousand dollar credit against it, as I interpret this.

RICH GRAY Intervened stating, depending upon what is the zone project. Where is the tie, does the business get anything earned from their income.

REP. CARLSON This isn't the only exemption you would be getting, because you would be getting depreciation, and besides the income tax and depreciation, is there something else you would get as well?

DONNITA WALD You may have to capitalize some of your investments, depending on the long term, you wouldn't see a federal tax benefit right away.

REP. CARLSON In your opinion, should we clean up some of the language here to be more specific?

DONNITA WALD In my opinion, yes, it needs an amendment to at least clarify that something is part of a zone project. It is in the renaissance zone chapter but it does not talk about zone

project requirements. You could make a very good argument that it is opening it up to any city under twenty five hundred population, with or without a renaissance zone. She stated she spoke with Sen. Kroeplin about that, and his intention was to put it in a zone.

RICH GRAY Intervened again, stating that we need to decide where the zone project is going to go in the bill. Depending on where you put it, it either opens it or limits it.

REP. CARLSON Stated Rep. Clark would work with them to get the right amendment.

SEN. KROEPLIN The intent of what the legislation was, was for a new expanding business. It is also for the same tax credit which is in the renaissance zone legislation for a primary residence. The other thing is, that it is capped at ten thousand dollars.

REP. CARLSON You are in agreement that it would be in a renaissance zone.

SEN. KROEPLIN That was the intent.

ART ROSENBERG, MANAGER OF DAKOTA RENAISSANCE VENTURES CORP.

Testified in support of the bill. Stated they are comfortable with the suggested amendment. One of the issues which has come up in a lot of the smaller communities that they were working with, is the difficulty of creating a renaissance fund corporation. The individual investor does receive a fifty percent income tax credit for that investment, with the hope that someday, after ten years, that the fund is operating and they will also receive a return on that investment. This is not the easiest money to raise. Even with the fifty percent state income tax credit, getting individuals to invest in fund corporations is a difficult process. Right now, they can put it in a mutual fund, even with the stock market, the way it is, and get about fifteen percent on their money. Over a ten year period, they would get about one hundred fifty percent back, basically, risk free and also very liquid. This legislation we don't have a problem with, under that twenty five hundred

Page 7

House Finance and Taxation Committee

Bill/Resolution Number SB 2272

Hearing Date March 12, 2001

population, it is difficult to establish a fund. This could allow one individual investor to make an investment into a business itself, without having to go through the process of applying for a fund organization and going through that process.

REP. CARLSON These projects must be approved at the state level?

ART ROSENBERG Yes, there is a book that the division puts out that has about six pages of questions which you have to respond to, and it has to be done with a strategic plan, once the zone is approved, they have to put a proper renaissance fund corporation with it that needs to be attached to that application. Every project needs to be sent to the state for their review to make sure all of the information is provided so that the tax department and the division of community service can track what is happening in every zone.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 3-19-01 TAPE #2, SIDE A, METER #1280

SEN. KROEPLIN Appeared before the committee to explain the amendments he had prepared by the tax department. The intent of the bill was for a community of twenty five hundred or less. There must be a minimum investment of seventy five thousand dollars.

RON RAUSHENBERGER Appeared before the committee to explain portions of the bill and the amendments.

RICHARD GREY Appeared to comment and gave examples pertaining to the bill.

REP. LLOYD Made a motion to adopt amendment #10467.tax2, prepared for Sen. Kroeplin

REP. KROEBER Second the motion. **MOTION CARRIED BY VOICE VOTE**

Page 8

House Finance and Taxation Committee

Bill/Resolution Number SB 2272

Hearing Date ~~March 12, 2001~~

3-19-01

REP. CLARK Explained amendments which he had prepared to the bill. Richard Grey commented again stating the ten year investment was not important.

REP. LLOYD Made a motion for a **DO NOT PASS AS AMENDED**

REP. CLARK Second the motion. **MOTION CARRIED**

10 YES 4 NO 1 ABSENT

REP. CLARK Was given the floor assignment.

Date: 3-19-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2272

House FINANCE & TAXATION Committee

☐ Subcommittee on _____

or

☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass as amended

Motion Made By Rep. Lloyd Seconded By Rep. Clark

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-------------------|-----|----|
| CARLSON, AL, CHAIRMAN | ✓ | | NICHOLAS, EUGENE | ✓ | |
| DROVDAL, DAVID, V-CHAIR | ✓ | | RENNER, DENNIS | ✓ | |
| BRANDENBURG, MICHAEL | ✓ | | RENNERFELDT, EARL | ✓ | |
| CLARK, BYRON | ✓ | | SCHMIDT, ARLO | | ✓ |
| GROSZ, MICHAEL | ✓ | | WIKENHEISER, RAY | ✓ | |
| HERBEL, GIL | ✓ | | WINRICH, LONNY | | ✓ |
| KELSH, SCOT | | ✓ | | | |
| KROEBER, JOE | | ✓ | | | |
| LLOYD, EDWARD | ✓ | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) 10 No 4

Absent 1

Floor Assignment Rep. Clark

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

REPORT OF STANDING COMMITTEE

SB 2272: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). SB 2272 was placed on the Sixth order on the calendar.

Page 1, line 2, replace "certain purchases" with "the purchase"

Page 1, line 3, replace "leases" with "expansion"

Page 1, line 7, replace "makes an investment of more than seventy-five" with "purchases a new business or expands the taxpayer's existing business"

Page 1, remove line 8

Page 1, line 9, remove "thousand five hundred population" and remove "from"

Page 1, line 11, after "years" insert ", beginning with the date of purchase or completion of the expansion" and replace "The exemption under this subsection is first allowed in the" with "The cost of the acquisition or expansion must exceed seventy-five thousand dollars and must be an approved zone project. The new or expanding business must be located in a city of less than two thousand five hundred population."

Page 1, remove line 12

Renumber accordingly