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2003 HOUSE FINANCE AND TAXATION

HB 1326

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1326**

House Finance and Taxation Committee

Conference Committee

Hearing Date January 20, 2003

Tape Number	Side A	Side B	Meter #
1		X	13.3

Committee Clerk Signature *Jamie Stein*

Minutes:

**REP. WESLEY BELTER, CHAIRMAN** Called the hearing to order.

**REP. BOB SKARPHOL, DIST. #2 TIOGA, ND** Introduced the bill to revitalize North Dakota. He stated it was hard to get teachers to rural North Dakota because there was not enough adequate housing. In visiting with the banks, it became apparent, the banks had some level of difficulty financing new homes in rural North Dakota, because typically, after they are constructed, they are worth half of what it cost to build it. This bill gives a state income tax exemption to anyone building a new home, or buying a newly constructed home, and residing in that home, equal to half the value of that home, and it can be distributed over a ten year period. Potentially, it gives banks the ability to be a little bit more liberal in their lending policies for new homes. It does not apply to new homes built within ten miles of North Dakota's ten largest cities, and it does not apply to cities over a population of two thousand people. He stated that possibly, it should be a little farther from a larger city than ten miles.

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House Finance and Taxation Committee  
Bill/Resolution Number HB 1326  
Hearing Date January 20, 2003

**REP. WINRICH** Asked whether there were any representatives from the banking industry to testify on the bill?

**YES**

**REP. WINRICH** Your comment about this tax credit would give banks greater freedom in lending money on these kinds of properties, but the tax credit is to individuals, the bank still has to have the loan secured, under the banking regulations, how does it give them more freedom?

**REP. SKARPHOL** It possibly gives them the ability to, more adequately, recommend the financing. The feasibility of the financing, is the issue. Typically, in a small town, if you build a home for \$70,000 and you try to sell it five years later, it is worth half of that. Hopefully, this income tax exemption will give them something which will make that work.

**SEN. RON NICHOLS, DIST. 4** Testified in support of HB 1326 and HB 1327. Stating, as all of you know, things are changing pretty fast in rural North Dakota in our small towns. We are losing population, and certainly, the people who remain in the smaller towns, are getting older. We are an aging population. It is difficult keeping young families in our small towns. We need some advantages at this time to make those things happen.

**GREG TSCHIDER, NORTH DAKOTA CREDIT UNION LEAGUE**, Testified in support of the bill. He stated, the credit union league is concerned about the loss of population in the rural areas. They support any program that will enhance the quality of living, provide housing and provide jobs. He referred to Rep. Winrich's question regarding the banking industry. He stated they are not a bank, but do have the same concerns about underwriting mortgages. The big concern is, you can build a house for \$70,000 and the next day, if you want to resell it, it is worth only about \$30 to 35,000. How do you protect the financial institution. The tax credits are a nice

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House Finance and Taxation Committee  
Bill/Resolution Number HB 1326  
Hearing Date January 20, 2003

idea, but they go to the individuals. He stated, if the committee supports this bill, we need to look for a way to provide a mechanism for the financial institutions so that that tax rebate does not go to the individual, but could be secured so that the money would go to the financial institution to be applied on the mortgage. If you give the money to the individual, and they don't make any payments on the mortgage, we are in the same position we are now, sitting with a large mortgage on a piece of property, which, if we have to foreclose, we would basically, lose a lot of money. By federal and state regulations, we can't grant loans, other than on a fair market value. You have to have the home appraised, and if the appraisal only comes in at thirty five or forty, the regulation says, the legislature, the FDIC prohibit us from making that loan. If you decide this is something that will benefit North Dakota, we will support that concept. The credit unions and the banks will shrink because there will be less and less people. We have a vested interest in the people of North Dakota.

**REP. WINRICH** What you are saying the bill, in its present form, would not give you any additional freedom in making mortgage loans, is that correct?

**GREG TSCHIDER** That is correct.

**REP. WINRICH** If it were changed somehow to direct the tax credits to the institutions, how would that be regarded under state and federal regulations?

**GREG TSCHIDER** At this time, there are no regulations that would be applicable, mainly because this is new ground.

**JOEL GILBERTSON, ATTORNEY WITH VOGEL LAW FIRM AND REPRESENTING THE INDEPENDENT BANKS OF NORTH DAKOTA** Testified in support of the bill.

There is a crisis in the rural areas. They support economic development in small towns. He gave

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Hearing Date January 20, 2003

an example of a banker saying, he could be the best community banker in the world, but if he doesn't have a community, it won't make a difference. It is a difficult problem. Related to questions asked by committee members. The problem with gap financing, Fannie Mae is trying to address this problem, we are gathering information of what possibilities are out there, whether this would address that problem, I don't know. Banks are very heavily regulated. They would be very happy to be a part of the solution to this problem.

**DOREEN MEHLHOFF, EXECUTIVE OFFICER, NORTH DAKOTA ASSOCIATION**

**OF BUILDERS**, Testified in support of the bill. Would like to see more homes constructed around North Dakota. See attached testimony.


**JOE BECKER, STATE TAX DEPARTMENT** Testified in a neutral position. He did have

some comments to offer on the bill. He questioned whether the credits were based on cost as they are incurred, or as they are paid. Is the credit allowed in the year in which the cost of construction is incurred, if the house is not completed yet, or do we take the credit in the year the construction is completed. The bill is not clear on that. We are not sure, if this would be for someone other than the builder, that individual may not know what the break out of the costs are. In respect for the definition of construction, in the bill, it says construction does not include sales tax. I understand from the sales tax section, that is a cost when itemized, should be built into the total price, they may not know that. There would be a lot of tracking in the administration of it.

**CONNIE SPRYNCHYNATYK, REPRESENTING THE NORTH DAKOTA LEAGUE OF**

**CITIES** Testified in a neutral position. She stated there were some questions on it. She submitted handouts showing cities with over 2,000 population and the Renaissance zone law. They do support the concept of the bill.

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House Finance and Taxation Committee  
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With no further testimony, the hearing was closed.

**COMMITTEE ACTION** Later in the day, Tape #2, Side A, Meter #21.4

Committee members felt that people would not build a seventy thousand dollar house in a small town just to get a tax break.

During discussion, committee members felt this bill would not solve the problems in the small towns.

**REP. BELTER** Stated they would wait with action on the bill, until they receive information regarding other programs from Connie Sprynczynatyk.

**COMMITTEE ACTION** 1-21-03, Tape #1, Side B, Meter # 49.8

**REP. WINRICH** Made a motion for a **DO NOT PASS**

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

12 yes            2 no            0 absent

**REP. KELSH** Was given the floor assignment.

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**FISCAL NOTE**  
 Requested by Legislative Council  
 01/14/2003

Bill/Resolution No.: HB 1326

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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 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.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 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.

If enacted, HB 1326 would create an income tax credit equal to 50% of the qualifying construction costs associated with the building of new primary residences in qualifying small cities. How many taxpayers would take advantage of this credit is unknown, so the negative fiscal impact cannot be determined.

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.

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Tax Dept.
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/17/2003

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Date: 1-21-03  
 Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. HB 1326

House FINANCE & TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Not Pass

Motion Made By Rep. Winrich Seconded By Rep. Clark

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN	✓				
DROVDAL, VICE-CHAIR	✓				
CLARK	✓				
FROELICH	✓				
GROSZ	✓				
HEADLAND	✓				
IVERSON	✓				
KELSH	✓				
KLEIN	✓				
NICHOLAS		✓			
SCHMIDT		✓			
WEILER	✓				
WIKENHEISER	✓				
WINRICH	✓				

Total (Yes) 12 No 2

Absent 0

Floor Assignment Rep. S. Kelsh

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

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REPORT OF STANDING COMMITTEE (410)  
January 21, 2003 1:31 p.m.

Module No: HR-11-0847  
Carrier: S. Kelsh  
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1326: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (12 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1326 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

HR-11-0847

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2003 TESTIMONY

HB 1326

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**PRESIDENT-ELECT**  
Clarion "Rusty" Wysocki, Grand Forks

**SECRETARY/TREASURER**  
Joe Stenvold, Minot

**IMMEDIATE PAST PRESIDENT**  
Jack Knulson, Bismarck

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Bob Klave, Grand Forks

**ALTERNATE BUILD-PAC TRUSTEE**  
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**NORTH DAKOTA ASSOCIATION OF BUILDERS**  
Doreen Streyke Mehlhoff,  
Executive Officer  
Amber Bintliff,  
Administrative Assistant



## Testimony in Support of HB1326

House Finance & Taxation Committee

January 20, 2003

Doreen Mehlhoff, Executive Officer  
North Dakota Association of Builders

Mr. Chairman and members of the House Finance & Taxation Committee, the North Dakota Association of Builders encourages your support of HB 1326. Our state association represents just over 1,400 builder and associate members belonging to the five local home builders' associations in Dickinson, Minot, Bismarck-Mandan, Grand Forks, and Fargo-Moorhead.

We believe in the **positive economic impact gained from the construction of new homes** in our state, and see this legislation as a positive step. Even though small communities probably won't build 100 homes per year, statistics from the National Association of Home Builders (NAHB) show that **building 100 homes creates:**

- \$11.6 million in local income;
- \$1.4 million in taxes and other revenue for local governments; and
- 250 local jobs.

These are the one-year impacts, and include both the direct and indirect impact of construction activity itself, and the impact of those who earn and spend construction activity monies.

**Recurring impacts** of building 100 single-family homes are:

- \$2.8 million in local income;
- \$498,000 in taxes and other revenue for government; and
- 65 local jobs.

These are the ongoing, annual local impacts that result from the new homes being occupied, and the occupants paying taxes and participating in the local economy year after year.

The North Dakota Association of Builders respectfully asks the House Finance & Taxation Committee to support HB 1326.

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Connie S.  
AB 1326

**Cities Over 2,000 Population - 2000 Census**

Fargo, 90,599  
Bismarck, 55,532  
Grand Forks, 49,321  
Minot, 36,567  
Mandan, 16,718  
Dickinson, 16,010  
Jamestown, 15,527  
West Fargo, 14,940  
Williston, 12,512  
Wahpeton, 8,586  
Devils Lake, 7,222  
Valley City, 6,826  
Grafton, 4,516  
Beulah, 3,152  
Rugby, 2,939  
Hazen, 2,457  
Bottineau, 2,336  
Lisbon, 2,292  
Carrington, 2,268  
Langdon, 2,101



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# Renaissance zone law refined

*Rich Gray*

With the passage of SB 2033 and HB 1460, the Renaissance Zone program is given more clarity, is made more responsive to local needs, is expanded and is made more fiscally responsible. These actions are the results of lessons learned from the first year of implementation, and the growing interest in the potential positive impact of the program in communities of all sizes.

Currently, eight cities have Renaissance zones: Grand Forks, Fargo, West Fargo, Casselton, Valley City, Minot, Jamestown and Bismarck.

The following are key changes to the program:

- ✓ Continued leases in buildings being rehabilitated as a zone project will be considered as new leases.
- ✓ Rehabilitation is added as an eligible zone project for the state income tax exemptions and credits, and for property tax exemptions.
- ✓ The definition of a zone project is clarified to be a purchase, lease, rehabilitation, or historical preservation or renovation of a building or space in a building.
- ✓ A city may start a zone with less than 20 square blocks and request to expand the zone at a later date up to 20 square blocks.
- ✓ If after five years a portion of a zone is not working as planned, a city may request a one-time adjustment to the zone boundaries to another equal area contiguous to the original zone.
- ✓ In a city of less than 2,500, a taxpayer may qualify for a tax exemption of up to \$2,000 per year of personal income tax

liability for five years through the investment of \$75,000 or more in new or expanding business.

- ✓ For historic preservation or renovation, a taxpayer may receive 25% tax credits on the investment up to a maximum of \$250,000 of credits.
- ✓ A city may request to establish a Renaissance Fund Organization (previously a corporation) immediately after approval of its Renaissance Zone or at a later date.
- ✓ A Renaissance Fund Organization (RFO) may provide financing to approved zone projects in any Renaissance Zone, and may in its own zone, provide financing to any business.
- ✓ After the first \$2.5 million of tax credits for RFOs are exhausted, an additional \$2.5 million of tax credits will be phased in for new RFOs, or for existing RFOs that have invested more than 65% of their investments.
- ✓ An RFO must submit a yearly audit to the city, the Division of Community Services and the Office of State Tax Commissioner. For an organization in existence for 4 or more years, if the audit shows an investment of less than 50% of its net investments, it may not seek new investors until the city determines that good cause exists for

failure to reach that level of investment, or until a subsequent audit shows 50% or more of the net investments have been invested.

For information, contact Rich Gray, program manager (701-328-3698 or rgray@state.nd.us).

## Know your cities

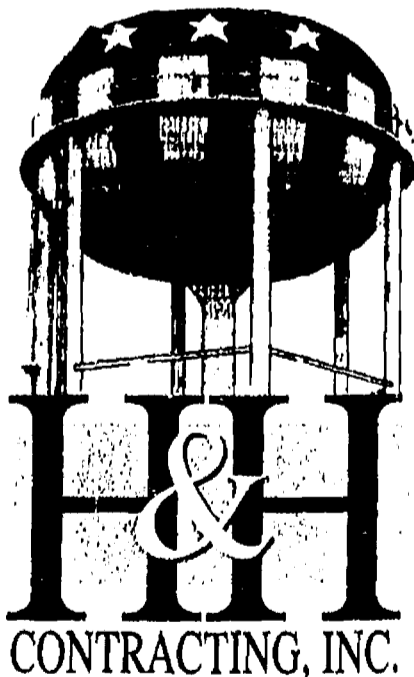
Unscramble the letters to spell out the name of a North Dakota city.  
Answers on page 23.

1. HOOORWTDW \_\_\_\_\_
2. VERYLO \_\_\_\_\_
3. DERREE \_\_\_\_\_
4. LONES \_\_\_\_\_
5. SHIELDDRUF \_\_\_\_\_
6. KITNESR \_\_\_\_\_
7. BIMPANE \_\_\_\_\_
8. STOKENYS \_\_\_\_\_
9. ISAKOR \_\_\_\_\_
10. MNKAOE \_\_\_\_\_

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Connie HB 1326

40-63-01

MUNICIPAL GOVERNMENT

CHAPTER 40-63  
RENAISSANCE ZONES

Section 40-63-01. Definitions.	Section 40-63-08. Contributions — Use — Repealed.
40-63-02. Eligibility — Local zone authority designation.	40-63-09. Rules and administration — Income tax secrecy exception.
40-63-03. Renaissance zones.	40-63-10. Pass-through of tax exemption or credit.
40-63-04. Income tax exemptions.	40-63-11. Tax benefits not available to delinquent taxpayer.
40-63-05. Property tax exemptions.	
40-63-06. Historic preservation and renovation tax credit.	
40-63-07. Renaissance fund organization — Exemption from taxation.	

**40-63-01. Definitions.** As used in this chapter:

1. "Boundary" means the boundary established by vote of the city governing body and approved by the department of commerce division of community services.
2. "Development plan" means a written plan that addresses the criteria in subsection 1 of section 40-63-03 and includes the following:
  - a. A map of the proposed renaissance zone which indicates the geographic boundaries and blocks, a description of the properties and structures on each block, identification of those properties and structures to be targeted for potential zone projects, and a description of the present use and conditions of the targeted properties and structures.
  - b. A description of the existing physical assets, in particular natural or historical assets, of the zone and a plan for the incorporation and enhancement of the assets within the proposed development.
  - c. An outline of goals and objectives and proposed outcomes, including major milestones or benchmarks, by which to gauge success resulting from the designation of the zone.
  - d. A description of the types of projects the city would encourage in the city's targeted properties.
  - e. A description of the promotion, development, and management strategies to maximize investment in the zone.
  - f. A plan for the development, promotion, and use of a renaissance fund organization, if one is desired to be established. If a city is not ready to commit to establishing a renaissance fund organization, the city may indicate in the renaissance zone application the city's desire to submit a plan for approval at a later date.
  - g. Evidence of community support and commitment from residential and business interests.
3. "Investor" means the individual, partnership, limited partnership, limited liability company, trust, or corporation making an investment in a renaissance fund organization.
4. "Lease" means the lease of space in a building in a designated renaissance zone by a new business moving into the zone or by an existing zone business expanding in the zone, and the continuation of a lease of an existing zone tenant in a building rehabilitated as an approved zone project. For existing zone tenants expanding in the zone, the term does not include existing leased space.
5. "Local zone authority" means the city or the entity designated by the city to promote, develop, and manage the zone and may include any

RENAISSANCE ZONES

40-63-03

nonprofit incorporated entity such as an economic development corporation, community development corporation, main street organization, or chamber of commerce.

6. "Original principal amount" means the funds invested in a renaissance fund organization after designation of the renaissance zone and before the sunset of that zone.
7. "Rehabilitation", as used in sections 40-63-04 and 40-63-05, means the repair or remodeling of a building at a cost that is equal to or exceeds fifty percent of the current true and full value for commercial buildings and twenty percent for single-family homes.
8. "Taxpayer" means an individual, corporation, financial institution, or trust subject to the taxes imposed by chapter 57-35.3 or 57-38 and includes a partnership, subchapter S corporation, limited partnership, limited liability company, or any other passthrough entity.
9. "Zone" means a renaissance zone proposed by a city and designated by the department of commerce division of community services.
10. "Zone project" means the purchase, lease, rehabilitation, or historical preservation or renovation of a building or space in a building approved for zone incentives by a majority vote of the city governing body or zone authority.

Source: S.L. 1999, ch. 369, § 1; 2001, ch. 55, § 12; 2001, ch. 359, § 1.

**Effective Date.**

The 2001 amendment of this section by section 12 of chapter 55, S.L. 2001 became effective August 1, 2001.

The 2001 amendment of this section by section 1 of chapter 359, S.L. 2001 became effective August 1, 2001.

**Note.**

Section 40-63-01 was amended twice by the

2001 Legislative Assembly. Pursuant to section 1-02-09.1, the section is printed above to harmonize and give effect to the changes made in section 12 of chapter 55, S.L. 2001, and section 1 of chapter 359, S.L. 2001.

Section 12 of chapter 369, S.L. 1999, provides: "EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 1998, and does not apply to any investments or activities that occurred before January 1, 1999."

**40-63-02. Eligibility — Local zone authority designation.** Any incorporated city may apply to the department of commerce division of community services to designate a portion of the city as a renaissance zone. Any individual, partnership, limited partnership, limited liability company, trust, or corporation may apply for a tax credit or exemption under sections 40-63-04 through 40-63-07. The governing body of a city may designate a local zone authority to implement a development plan on behalf of the city.

Source: S.L. 1999, ch. 369, § 2; 2001, ch. 55, § 13; 2001, ch. 359, § 2.

**Effective Date.**

The 2001 amendment of this section by section 13 of chapter 55, S.L. 2001 became effective August 1, 2001.

The 2001 amendment of this section by section 2 of chapter 359, S.L. 2001 became

effective August 1, 2001.

**Note.**

Section 40-63-02 was amended twice by the 2001 Legislative Assembly. Pursuant to section 1-02-09.1, the section is printed above to harmonize and give effect to the changes made in section 13 of chapter 55, S.L. 2001, and section 2 of chapter 359, S.L. 2001.

**40-63-03. Renaissance zones.**

1. A city may apply to the department of commerce division of community services to designate a portion of that city as a renaissance zone if the following criteria are met:

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- a. The geographic area proposed for the renaissance zone is located wholly within the boundaries of the city submitting the application.
  - b. The application includes a development plan.
  - c. The proposed renaissance zone is not more than twenty square blocks.
  - d. The proposed renaissance zone has a continuous boundary and all blocks are contiguous.
  - e. The proposed land usage includes both commercial and residential property.
  - f. The application includes the proposed duration of renaissance zone status, not to exceed fifteen years.
2. The department of commerce division of community services shall:
    - a. Review all applications for renaissance zone designation against the criteria established in this section and designate zones.
    - b. Approve or reject the duration of renaissance zone status as submitted in an application.
    - c. Approve or reject the geographic boundaries and total area of the renaissance zone as submitted in an application.
    - d. Promote the renaissance zone program.
    - e. Monitor the progress of the designated renaissance zones against submitted plans in an annual plan review.
    - f. Report on renaissance zone progress to the governor and the legislative council on an annual basis until all designated zones expire.
  3. The department of commerce division of community services shall consider the following criteria in designating a renaissance zone:
    - a. The viability of the development plan.
    - b. The incorporation and enhancement of unique natural and historic features into the development plan.
    - c. Whether the development plan is creative and innovative in comparison to other applications.
    - d. Public and private commitment to and other resources available for the proposed renaissance zone, including the provisions for a renaissance fund organization.
    - e. How renaissance zone designation would relate to a broader plan for the community as a whole.
    - f. How the local regulatory burden, in particular that burden associated with the renovation of historic properties and that burden associated with mixed use development, will be eased for developers and investors in the renaissance zone.
    - g. The strategies for the promotion, development, and management of the zone, including the use of a local zone authority if designated.
    - h. Any other information required by the office.
  4. The department of commerce division of community services may not designate a portion of a city as a renaissance zone unless, as a part of the application, the city provides a resolution from the governing body of the city that states if the renaissance zone designation is granted, persons and property within the renaissance zone are exempt from taxes as provided in sections 40-63-04 through 40-63-07.
  5. A city may not propose or be part of more than one renaissance zone.
  6. A parcel of property may be exempted from property taxes under section 40-63-05 only once, but during the five taxable years of

- eligibility for that exemption, the property tax exemption transfers with the transfer of the property to a qualifying user. The ownership or lease of, or investment in, a parcel of property may qualify for exemption or credit under section 40-63-04 only once, but during the five taxable years of eligibility for that exemption or credit, the exemption or credit under section 40-63-04 transfers with the transfer of the property to a qualified user and with respect to the year in which the transfer is made must be prorated for use of the property during that year.
7. A city may apply to the department of commerce division of community services at any time during the duration of a zone to expand a previously approved renaissance zone that is less than twenty square blocks to not more than twenty square blocks. If the expansion is approved by the department of commerce division of community services, the blocks in the expansion are eligible for up to fifteen years of renaissance zone status.
  8. The use of grant funds as the sole source of investment in the purchase of a building or space in a building does not qualify a taxpayer for any tax exemption or credit available under the chapter, and grant funds may not be counted in determining if the cost of rehabilitation meets or exceeds the current true and full value of the building.
  9. If after a minimum of five years a portion of an approved renaissance zone is not progressing, the city may request the department of commerce division of community services to permit deleting that portion and to make a one-time adjustment of the boundaries to add another equal, contiguous area to the original zone.

Source: S.L. 1999, ch. 369, § 3; 2001, ch. 55, § 14; 2001, ch. 359, § 3. effective August 1, 2001.

**Effective Date.**

The 2001 amendment of this section by section 14 of chapter 55, S.L. 2001 became effective August 1, 2001.

The 2001 amendment of this section by section 3 of chapter 359, S.L. 2001 became

**Note.**

Section 40-63-03 was amended twice by the 2001 Legislative Assembly. Pursuant to section 1-02-09.1, the section is printed above to harmonize and give effect to the changes made in section 14 of chapter 55, S.L. 2001, and section 3 of chapter 359, S.L. 2001.

**40-63-04. Income tax exemptions.**

1. An individual taxpayer who purchases or rehabilitates single-family residential property for the individual's primary place of residence as a zone project is exempt from up to ten thousand dollars of personal income tax liability as determined under section 57-38-29 or 57-38-30.3 for five taxable years beginning with the date of occupancy or completion of rehabilitation.
2. Any taxpayer that purchases, leases, or rehabilitates residential or commercial property for any business or investment purpose as a zone project is exempt from any tax on income derived from the business or investment locations within the zone for five taxable years, beginning with the date of purchase, lease, or completion of rehabilitation.
3. If the cost of a new business purchase or expansion of an existing business, approved as a zone project, exceeds seventy-five thousand dollars, and the business is located in a city with a population of not more than two thousand five hundred, an individual taxpayer may, in lieu of the exemption provided in subsection 2, elect to take an

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income tax exemption of up to two thousand dollars of personal income tax liability as determined under section 57-38-29 or 57-38-30.3. The election must be made on the taxpayer's zone project application. The election is irrevocable and binding for the duration of the exemptions provided in subsection 2 or 3. If no election is made on the zone project application, the taxpayer is only eligible for the exemption provided in subsection 2.

4. The exemptions provided by this section do not eliminate any duty to file a return or to report income as required under chapter 57-35.3 or 57-38.

Source: S.L. 1999, ch. 369, § 4; 2001, ch. 359, § 4. section 4 of chapter 359, S.L. 2001 applies to zone projects approved after December 31, 1999, pursuant to section 12 of chapter 359, S.L. 2001.  
Effective Date. The 2001 amendment of this section by

40-63-05. Property tax exemptions.

1. A municipality may grant a partial or complete exemption from ad valorem taxation on single-family residential property, exclusive of the land on which it is situated, if the property was purchased or rehabilitated by an individual for the individual's primary place of residence as a zone project. An exemption granted under this subsection may not extend beyond five taxable years following the date of acquisition or rehabilitation.
2. A municipality may grant a partial or complete exemption from ad valorem taxation on buildings, structures, fixtures, and improvements purchased or rehabilitated as a zone project for any business or investment purpose. An exemption under this subsection may not extend beyond five taxable years following the date of purchase or rehabilitation.

Source: S.L. 1999, ch. 369, § 5; 2001, ch. 359, § 5. section 5 of chapter 359, S.L. 2001 applies to zone projects approved after December 31, 1999, pursuant to section 12 of chapter 359, S.L. 2001.  
Effective Date. The 2001 amendment of this section by

40-63-06. Historic preservation and renovation tax credit. A credit against state tax liability as determined under sections 57-35.3-03, 57-38-29, 57-38-30, and 57-38-30.3 is allowed for investments in the historic preservation or renovation of property within the renaissance zone. The amount of the credit is twenty-five percent of the amount invested, up to a maximum of two hundred fifty thousand dollars. The credit may be claimed in the year in which the preservation or renovation is completed. Any excess credit may be carried forward for a period of up to five taxable years.

Source: S.L. 1999, ch. 369, § 6; 2001, ch. 359, § 6. section 6 of chapter 359, S.L. 2001 applies to zone projects approved after July 31, 2001, pursuant to section 12 of chapter 359, S.L. 2001.  
Effective Date. The 2001 amendment of this section by

40-63-07. Renaissance fund organization — Exemption from taxation.

1. Each city with a designated renaissance zone may establish a renaissance fund corporation, if the detailed plan for such an

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organization is clearly established in the development plan and approved with the plan, or is submitted at a later date to the department of commerce division of community services for approval after the designation of a renaissance zone.

2. The purpose of a renaissance fund organization is solely to raise funds to be used to make investments in zone projects and to make investments in businesses within a city's zone. A renaissance fund organization may provide financing to projects undertaken by individuals, partnerships, limited partnerships, limited liability companies, trusts, corporations, nonprofit organizations, and public entities. The financing may include any combination of equity investments, loans, guarantees, and commitments for financing. The amount of financing is not limited by this chapter.
3. A renaissance fund organization that is established by a city may provide financing to businesses within the city's zone and may provide financing to zone-approved projects throughout the state.
4. A renaissance fund organization is exempt from any tax imposed by chapter 57-35.3 or 57-38. An exemption under this section may be passed through to any shareholder, partner, and owner if the renaissance fund organization is a passthrough entity for tax purposes. A corporation or financial institution entitled to the exemption provided by this subsection must file required returns and report income to the tax commissioner as required by the provisions of those chapters as if the exemption did not exist. If an employer, this subsection does not exempt a renaissance fund organization from complying with the income tax withholding laws.
5. A credit against state tax liability as determined under section 57-35.3-03, 57-38-29, 57-38-30, or 57-38-30.3 is allowed for investments in a renaissance fund organization. The amount of the credit is fifty percent of the amount invested in the renaissance fund organization during the taxable year. Any amount of credit which exceeds a taxpayer's tax liability for the taxable year may be carried forward for up to five taxable years after the taxable year in which the investment was made.
6. The total amount of credits allowed under this section may not exceed, in the aggregate, an initial limit of two million five hundred thousand dollars. Upon exhaustion of this initial limit, an additional one million dollars in credits is available for investments in renaissance fund organizations for taxable years beginning after December 31, 2000, for investments permitted under this chapter if more than sixty-five percent of the organization's net investments received have been invested as permitted under this chapter or the organization is established after the exhaustion of the initial limit. Upon exhaustion of the initial limit, an additional one million five hundred thousand dollars in credits is available for investments in renaissance fund organizations for taxable years beginning after December 31, 2002, for investments permitted under this chapter if more than sixty-five percent of the qualifying organization's net investments received have been invested as permitted under this chapter or the organization is established after the exhaustion of the initial limit.
7. Income to a renaissance fund organization derived from the sale or refinancing of zone properties financed wholly or in part by the organization may be dispersed as annual dividends equal to the income, minus ten percent, derived from all sources and proportional to the investment. In the event of a loss to the fund resulting in a

temporary diminishment of the fund below the original principal amount, no annual dividend may be paid until the fund is restored.

- 8. Income to a renaissance fund organization derived from interest or the temporary investment of its funds in certificates of deposit, bonds, treasury bills, or securities may be used for administration.
- 9. If an investment in a renaissance fund organization which is the basis for a credit under this section is redeemed by the investor within ten years of the date it is purchased, the credit provided by this section for the investment must be disallowed, and any credit previously claimed and allowed with respect to the investment must be paid to the tax commissioner with the appropriate return of the taxpayer covering the period in which the redemption occurred. When payments are made to the tax commissioner under this section, the amount collected must be handled in the same manner as if no credit had been allowed.
- 10. A renaissance fund organization shall secure an annual audit of its financial records, prepared by an independent certified public accounting firm in accordance with generally accepted auditing standards. The audit report must include a statement of the percentage of annual net investments received by the organization after December 31, 2000, which have been invested by the organization in investments permitted under this chapter. If the audit report shows that less than fifty percent of such net investments have been so invested during the previous four years and the organization has been incorporated for four years or more, that organization may not accept any new investments until the governing body of the city in which the organization was established determines that good cause exists for the failure to reach that level of investment or until a subsequent audit report shows that fifty percent or more of such net investments have been so invested. A renaissance fund organization shall file a copy of each audit of its financial records under this subsection with the governing body of the city in which it was established, the department of commerce division of community services, and the tax commissioner. The department of commerce division of community services shall provide an annual report to the budget section of the legislative council showing the conclusions of audit reports filed under this subsection.
- 11. A renaissance fund organization may invest in any residential or commercial property involved in a zone project.

Source: S.L. 1999, ch. 369, § 7; 2001, ch. 359, § 7; 2001, ch. 360, § 1. 31, 2000, pursuant to section 2 of chapter 360, S.L. 2001.

**Effective Date.**  
The 2001 amendment of this section by section 7 of chapter 359, S.L. 2001 became effective August 1, 2001.  
The 2001 amendment of this section by section 1 of chapter 360, S.L. 2001 is effective for taxable years beginning after December 31, 2000.

**Note.**  
Section 40-63-07 was amended twice by the 2001 Legislative Assembly. Pursuant to section 1-02-09.1, the section is printed above to harmonize and give effect to the changes made in section 7 of chapter 359, S.L. 2001, and section 1 of chapter 360, S.L. 2001.

**40-63-08. Contributions — Use.** Repealed by S.L. 2001, ch. 359, § 11.

**40-63-09. Rules and administration — Income tax secrecy exception.** The tax commissioner shall administer this chapter with respect

to an income tax exemption or credit and has the same powers as provided under section 57-38-56 for purposes of this chapter. The secrecy provisions of section 57-38-57 do not apply to exemptions or credits received by taxpayers under sections 40-63-04, 40-63-06, and 40-63-07, but only when a local zone authority inquires of the tax commissioner about exemptions or credits claimed under sections 40-63-04, 40-63-06, and 40-63-07 with regard to that local zone authority or to the extent necessary for the tax commissioner to administer the tax exemptions or credits.

Source: S.L. 1999, ch. 369, § 9; 2001, ch. 55, § 15; 2001, ch. 359, § 8. effective August 1, 2001.

**Effective Date.**  
The 2001 amendment of this section by section 15 of chapter 55, S.L. 2001 became effective August 1, 2001.  
The 2001 amendment of this section by section 8 of chapter 359, S.L. 2001 became effective August 1, 2001.

**Note.**  
Section 40-63-09 was amended twice by the 2001 Legislative Assembly. Pursuant to section 1-02-09.1, the section is printed above to harmonize and give effect to the changes made in section 15 of chapter 55, S.L. 2001, and section 8 of chapter 359, S.L. 2001.

**40-63-10. Pass-through of tax exemption or credit.** A partnership, subchapter S corporation, limited partnership, limited liability company, or any other pass-through entity that purchases or leases property in a renaissance zone for any business purpose, invests in a historic preservation or renovation of property within a renaissance zone, or invests in a renaissance fund organization must be considered to be the taxpayer for purposes of any investment limitations in sections 40-63-04, 40-63-06, and 40-63-07, and the amount of the exemption or credit allowed with respect to the entity's investments must be determined at the pass-through entity level. The amount of the total exemption or credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the pass-through entity.

Source: S.L. 1999, ch. 369, § 10; 2001, ch. 359, § 9. section 9 of chapter 359, S.L. 2001 became effective August 1, 2001.

**Effective Date.**  
The 2001 amendment of this section by

**40-63-11. Tax benefits not available to delinquent taxpayer.** A taxpayer may not be delinquent in payment of any state and local tax liability to be eligible for a tax benefit under this chapter.

Source: S.L. 2001, ch. 359, § 10. **Effective Date.**  
This section became effective August 1, 2001.



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