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Deanna Hall
Operator's Signature

10/22/03

Date

2003 SENATE FINANCE AND TAXATION

SB 2395

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Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2395

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 3, 2003

Tape Number	Side A	Side B	Meter #
1	X		3625-4517

Committee Clerk Signature *Mary Kay Lusk*

Minutes:

Senator Urlacher opened the hearing on SB2395. All committee members are present. This bill relates to a small business investment income tax credit.

Senator O'Connell (mtr #3683) - Prime sponsor of the bill. Written testimony attached. Supports SB2395.

Carol Two Eagle (mtr #3880) As a small business owner supports SB2395.

Joseph Becker, State Tax Department (mtr #3959) - Neutral on bill. Has questions on bill but the bill is workable.

Senator Urlacher - Fiscal effect is unknown, what do you anticipate.

Mr. Becker (mtr #4029) - Do not know the effect.

Senator Syverson (mtr #4057) - Question on the intent of the definition of wording in first paragraph.

Mr. Becker (mtr #4100) - Gave Tax Dept. interpretation of the paragraph and eligible parties.

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Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number SB2395

Hearing Date February 3, 2003

Senator Tollefson (mtr #4315) - Question regarding credit going to individuals in partnerships.

Mr. Becker (mtr # 4350) - Additional clarification on definition of qualifying parties.

Senator Urlacher (mtr #4444) - Does the explanation follow the intent of the sponsor?

Senator O'Connell (mtr #44560) - Answer is yes.

Senator Urlacher (mtr #4517) - Closed the hearing on SB2395.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2395

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 4, 2003

Tape Number	Side A	Side B	Meter #
2	X		2879-3690

Committee Clerk Signature *Mary Kay Walney*

Minutes:

Senator Urlacher opened the discussion on SB2395. All committee members are present.

The bill relates to a small business investment income tax credit.

Senator Urlacher (mtr #2883) - No fiscal effect. Question about the number of qualifying businesses. Bill is explanatory.

Senator Tollefson (mtr #3185) - Pointed out that small businesses have other sources of aid.

Senator Nichols (mtr #3223) - Question on the definition of the bill and the qualifying factors.

Senator Syverson (mtr #3303) - Qualification listed in bill seems broad. Appears that adding just one employee business would qualify for exemption.

Senator Tollefson moves a Do Not Pass. 2nd by Senator Wardner. Roll call 4 yea, 2 nay, 0 absent. Carrier Senator Tollefson.

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FISCAL NOTE
 Requested by Legislative Council
 01/28/2003

Bill/Resolution No.: SB 2395

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, SB 2395 would provide an income tax credit for investment in qualifying small businesses. It is unknown how many qualifying businesses may start up or expand in the next biennium, and therefore the 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.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	01/30/2003

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Deanna Stalinski 10/22/03
 Operator's Signature Date

Date: 2.4.03
 Roll Call Vote #: \

**2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO.**

Senate Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do not Pass

Motion Made By Sen. Tollefson Seconded By Sen. Lundberg

Senators	Yes	No	Senators	Yes	No
Senator Urlacher - Chairman	✓		Senator Nichols		✓
Senator Wardner - Vice Chairman	✓		Senator Seymour		✓
Senator Syverson	✓				
Senator Tollefson	✓				

Total (Yes) 4 No 2

Absent _____

Floor Assignment Senator Tollefson

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

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Operator's Signature Dennis Hallmark Date 10/22/03

REPORT OF STANDING COMMITTEE (410)
February 4, 2003 3:59 p.m.

Module No: SR-21-1652
Carrier: Tollefson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
SB 2395: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO NOT PASS (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2395 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SR-21-1652

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2003 TESTIMONY

SB 2395

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Senator O'Connell

SB 2395 - small business investment tax credit

The bill creates a new section to chapter 57-38 of the Century Code and provides the following:

1. A one-time income tax credit for investment in the creation or expansion of a small business.
2. The maximum credit allowed is \$5,000 and cannot be more than actual tax liability.
3. Qualifying small businesses include:
 - A. A business with 15 or fewer employees created during the taxable year;
 - or
 - B. A business with 5 or fewer employees (before expansion) that expanded and hired at least one additional employee during the taxable year.
4. Unlike most investment tax credits, this section would allow a deduction for more than just depreciable property (because most small business startups and expansions invest more in operations than in purchase of depreciable property. The credit applies to legitimate business expenses (schedule C of federal income tax form 1040 or a comparable schedule).
5. Some key points:
 - A. In the last 10 years, over half of all the jobs created in the country were created by firms with 5 or fewer employees.
 - B. Approximately 3 out of 4 jobs created in rural areas in North Dakota were nonfarm jobs created as a result of self-employment, microenterprise (fewer than 5 employees), or small business (less than 15 employees) development.
 - C. Microenterprise and small business development are less dependent on the purchase of depreciable property and more dependent on investment in operations and other business expenses.
 - D. Urban counties in North Dakota have an even higher rate of job creation resulting from development of small business, microenterprise and self-employment.

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