

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

14405

2007 HOUSE FINANCE AND TAXATION

HB 1405

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1405 A

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1512

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter called the committee to order. Everyone was present except Rep. Weiler.

Chairman Belter opened the hearing on HB 1405. He asked for testimony in support of 1405.

Rep. Kenton Onstad: (See attachment #1 and #2)

Mike Rud, President of the Retail Association: In visiting with Rep. Onstad and our

Marketers we would prefer mid August, a three day tax free weekend, a Friday to a Sunday.

That would be best for our Marketers. The most agreeable of all the solutions among them, they don't want the month long tax holiday. December could possibly have a negative affect on their October and certainly their November sales because they thin people might hold off and do all of their shopping in December. We stand in support of 1405 and urge a do pass.

Representative Pinkerton: As small retailers, we would have to reprogram all of our sales systems. It would be a burden.

Mike Rud: You make a good point. It's something that will have to be looked at. We've got a lot of Marketers on the eastern edge of the State that have been after us for some time to do something to offset the tax holiday that Minnesota currently has in place. This is an incentive that would maybe bring some of those Minnesota shoppers across the border and also keep

some of the people from ND in place rather than running across the border to do their back to school shopping.

Representative Pinkerton: Would this be mandatory?

Mike Rud: I don't think I could answer that question.

Chairman Belter: You mentioned Minnesota, do they have a holiday?

Mike Rud: Currently Minnesota does have a tax free holiday.

Vice Chairman Drovdal: We have home rules and most have their own sales tax. What kind of a problem is that going to be for merchants to take off one tax and yet leave another tax on there?

Mike Rud: I haven't researched it that closely. The Tax Commissioner probably could answer it.

Representative Kelsh: When you talk about a 5% break, is it going to that big of an attraction to bring people in?

Mike Rud: My impression from visiting with Retailers in our Association, yes, they think this would be a very good thing for the State of ND. They think they're going to attract some people possibly from across the border as well as make sure our people stay in State to do that.

Rep. Eliot Glassheim: This is a fairly simple way to give a little bit of sales tax relief, it's relatively small costs and yet we can give back some sales tax. I think don't understand this is not a big deal. If you're going to spend \$1,000 on a Christmas weekend shopping, you get back \$10.00. So it's not a big deal but there's a spirit to it. There's a psychology to it and I think the retailers will be able to market this and get a 1% tax break. Some people would feel it as a feel good kind of thing and also when they're shopping, they would be willing to spend a little bit more because they believe they're getting a break. I think this is a great marketing device

and would bring especially if it's concentrated in the 3 day period early in the Christmas season. It would bring people from Canada, South Dakota, Montana and Minnesota. It seems to me that you would recapture whatever monies were lost in the general fund through additional spending.

Rep. Phillip Mueller: This is a pretty simple Bill. It basically says that we're doing well in the State of ND financially then we're going to afford to give a Christmas present back to the merchants and consumers. I think that makes a lot of sense and responsible. It will generate additional sales and gives the retailer to give some promotions that they've not been able to do. I understand that there are some amendments that tend to do the same kind of thing in a different time frame and I'm in favor of that. I did find out that the potential for this 1% through the full month of December has about a \$12 million dollar impact per year. Should we hit that \$75 million dollar trigger? We are in support of the bill.

Chairman Belter: Is there further support for 1405? Any opposition to 1405? Any neutral to 1405?

Myles Vosberg, Tax Department: testimony in neutral. If a full exemption is granted on some of the products through this Bill, if a product becomes exempt for State purposes it will also become exempt for local tax purposes. There may be some local tax revenue lost in this situation. The other thing is that under our streamline sales tax, membership with the compact, sales tax holidays are provided for in the agreement. However the products that are eligible for the exemption under a holiday, if it's a full exemption, you need to be defined under the agreement. What I heard this morning that all tangible personal property would be exempt from tax. There wouldn't be any particular defined items that would be subject to tax. If it's a reduction in rate for only tangible personal property, we would have to change the 5% on

taxable services, like communication services or motels and so on, so we would have multiple rates.

Representative Kelsh: Is Minnesota part of the streamline sales tax agreement?

Myles Vosberg: Yes.

Chairman Belter: Is there any questions? We will close the hearing on HB 1405.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1405 B

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1585

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter opened the hearing on HB 1405.

Representative Brandenburg: I move a Do Not Pass

Representative Pinkerton: Second it.

Chairman Belter: Is there any discussion?

Representative Froelich: I'm going to support a Do Pass on this because we talked about these property and income taxes and it's great to get a property tax break. But there are people out there that aren't going to receive any benefit from it. I think it has a built in mechanism of 75 million dollars and holding.

Vice Chairman Drovdal: I've done a lot of research on tax holidays and a lot of States have it. I know everyone of those States put it in place to spur the economy. Generally in most cases it's a specific item like back to school days, clothing or something like that. This is just the opposite; it seems to be a tax break to do us good. The way the Bill is written where the 1% is just totally unworkable for business. I think we'd be giving them one major headache and we haven't amended it to be at 5% or 6%.

Chairman Belter: It certainly is a problem for the business community. The other thing is that whenever you have a tax holiday it disrupts your normal flow of business. When it comes to

sales tax, it's really the rich in a sense that benefit from it because they're the ones who can spend a lot of money.

Representative Kelsh: Mike Rud said there was a sales tax holiday in Minnesota. He came back after the hearing today and said that's not correct, it's actually in Iowa. What he meant to say was that Minnesota has no sales tax on clothing.

Representative Owens: I agree with your assessment around Christmas, I don't know that people would wait from July, but just having it at 1%, that would confuse things, it's just the way it's written.

Representative Weiler: Did anyone mention the expense that a business goes through to get their system switched over, it's not cheap.

Representative Wrangham: From reading this, I assume this means the sales tax that the business would pay on things they buy to use in their business, it isn't just individuals.

Chairman Belter: I assume that that would be the case.

Representative Wrangham: And that being the case, without objection from a lot of you, I would propose that businesses are in a lot better position to time these purchases of goods that they consume in their business. I feel it would be more of a benefit for businesses than for individuals.

Chairman Belter: Any other discussion? Will the clerk read the roll; 10-y, 4-n, 0-absent; Rep. Weiler will carry Bill 1405.

FISCAL NOTE
Requested by Legislative Council
01/16/2007

Bill/Resolution No.: HB 1405

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 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.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1405 reduces the sales tax rate one percentage point on December sales each year in which state general fund revenues exceed the forecast by \$75 million or more.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1405 is expected to have zero fiscal impact, as it is assumed that revenues equal the forecast, not exceed it by \$75 million. If revenues do exceed the forecast by the required \$75 million, the fiscal impact would be a reduction in sales tax revenues of approximately \$12 million for each year in which the December sales tax rate was dropped 1%. City sales taxes would not be affected. It is unclear how the state aid distribution fund would be affected.

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, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/19/2007

1-22-07 HB 1405

#2

70620.0101
Title.

Prepared by the Legislative Council staff for
Representative Onstad
January 22, 2007

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1405

Page 1, line 2, after "December" insert "weekend"

Page 1, line 7, after "December" insert "weekend" and replace "The rate of sales taxes under this" with "Gross receipts from sale of tangible personal property"

Page 1, remove line 8

Page 1, line 9, remove "point on any taxable sale", after "from" insert "the first Friday after", and replace "first to December thirty-first" with "eighth through the immediately following Saturday and Sunday"

Page 1, line 10, after "year" insert "are exempt from taxes imposed under this chapter"

Page 1, line 15, after the underscored period insert "For purposes of this section, "tangible personal property" does not include electricity, water, gas, steam, or services."

Renumber accordingly

Date: 1-22-07 pm
Roll Call Vote #: 1405

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken Do Not Pass

Motion Made By Rep Brandenburg Seconded By Rep. Pinkerton

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich		✓
Vice Chairman Drovdal	✓		Rep. Kelsh		✓
Rep. Brandenburg	✓		Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt		✓
Rep. Grande	✓		Rep. Vig		✓
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Weiler

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

REPORT OF STANDING COMMITTEE

HB 1405: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1405 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

HB 1405

1-22-07

HB 1405

#1

Sen Onstad

Chairman Belter and members of the Finance and Tax Committee:

I am Representative Kenton Onstad, District #4

HB 1405 provides for a Sales Tax Holiday given certain parameters.

The State of North Dakota provides an official forecast of state revenues at different times of the year. If we use July 31st of any given year and the office of management and budget determines our revenue receipts to be \$75 million dollars or more over the projected forecast, we will lower the sales tax rate in December of that same year.

HB 1405 originally allowed a 1% reduction for the month of December. I would like to offer the following amendment to HB 1405 to allow a 5% reduction of state sales tax for a three day week-end only. The dates provided would be for the second week-end of December starting on Friday and ending Sunday.

It also clarifies that it is for retail stores only which should have been there in the first draft of HB 1405.

HB 1405 can be considered a marketing tool, an incentive to shop at in your local stores and would attract out-of-state shoppers to shop North Dakota.

This is something the state can do, it is obvious, if our revenues are such, we can afford it, and our residents and retailers would appreciate it.

Chairman Belter and members of the committee, give HB 1405 serious consideration, give our citizens a Christmas present and pass HB 1405. I will be happy to answer any questions.