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ROLL NUMBER

DESCRIPTION

2291

2007 SENATE FINANCE AND TAXATION

SB 2291

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2291**

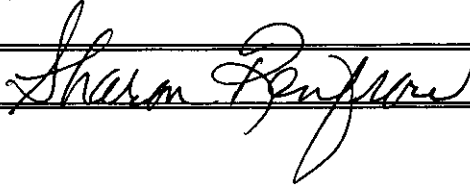
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 30, 2007

Recorder Job Number: # 2317

Committee Clerk Signature



Minutes:

**Sen. Urlacher** called the committee to order and opened the hearing on SB 2291.

**Sen. Potter** appeared as prime sponsor in support with written testimony. (See attached)

**Sen. Oehlke**: I noticed the property tax is 10% on residential property, as you know at this point and time farmers don't have residential property taxes?

**Answer**: there's a 5% for farm and commercial tax credit

**Sen. Triplett**: Can you tell us why you think your delivery mechanism is superior to the Governor's delivery mechanism?

**Answer**: I had heard some concerns expressed because the State doesn't levy property taxes, it's not our business to somehow relieve property taxes in the method the governor is using. Personally I don't find it that troublesome.

**Sen. Anderson**: how does the renter get that form?

**Answer**: I put that burden on the Tax Dept. to make sure that the taxpayer knows that they can take this credit and some method for doing that.

**Sen. Urlacher**: what brought your thoughts on the variable percentages?

**Answer**: the 2% on rent as opposed to rent on property tax. 10%, 5% on commercial and agricultural straight out of the governor's plan.

**Sen. Oehlke:** I have concerns with the little guy that when they file a tax return they probably don't ever have to pay tax and he's still paying rent and now where does the relief come from?

**Answer:** you put your finger exactly on the weak spot, I can't figure out how to overcome.  
This allows 3 years of caring forward.

**Sen. Cook:** we have Housing Authorities that offer vouchers for our lower income people, a voucher can vary based on your income, is it your intent then to just give 2% on their share of what they paid or what?

**Answer:** only on the 2% that they actually pay.

**Sen. Cook:** would a Housing Authority issuing the vouchers claim the 2% on the part of the rent that they paid then?

**Answer:** can't answer.

**Rep. Kaldor:** appeared as co-sponsor of the bill in support stating I agree with Sen. Potter's intentions and feel it's workable.

**Sen. Tollefson:** I noticed this bill doesn't address necessarily the out of state property owners, nonresident property owners, any type of amendment or situation fit into the bill and make it palatable or fair?

**Answer:** Since they don't pay ND income tax they wouldn't be eligible for the refund. That's a really good question. What should be fair and appropriate?

**Sen. Horne:** who does this bill benefit more, governors or this?

**Sen. Potter:** its only two categories: mobile home owners and renters and that's what different about this bill.

**Rep. Glassheim:** cosponsor appeared in support stating I wish to speak on the relief for renters, especially after the flood of 1997, it seemed renters didn't get a fair shake after the flood.

**Sen. Urlacher**: mentions interim bill where it gives property tax needs to do with the education system where those renters would get a break through the education levy adjustment, so there is a mechanism there to cover the majority of the people, another consideration.

**Sen. Anderson**: you didn't address mobile home taxes which are collected by the state, so it's really a tax, do you also support that?

**Answer**: Yes

**Sen. Anderson**: is there somehow to address the problem with the people who don't pay any income tax to somehow utilize the homestead tax credit?

**Cheryl Bergian**: Executive Dir. Of the Human Rights Coalition appeared in support of the concept of this bill.

**Clause Lemke**: ND Realtors Assoc. appeared in opposition stating the concerns of only the landlord portion of this bill. There is no investment that a renter does and no risk that a renter takes. They can up and move and leave all the risk to the landlord.

**Sen. Cook**: if you're a property owner and you own an apartment building, actually aren't we giving the relief twice. Aren't we giving 5% to the owner of the apt. owner and then 2% to the renter who's renting that apartment building?

**Answer**: Yes

**Marcy Dickerson**: Tax Dept. Appeared neutral on the bill with written testimony. (See attached)

**Sen. Horne**: can all these be made workable and corrected?

Answer: can be corrected

**Sen. Tollefson**: regarding out of state property owners, would it be legal to put them in a different category than property owners within the State as far as credits are concerned off of property taxes?

**Answer:** that's is the big question

**Leon Samuel:** Morton County Tax Commissioner appeared neutral with concerns and asking how about some people living in smaller communities?

Closed the hearing.

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2291**

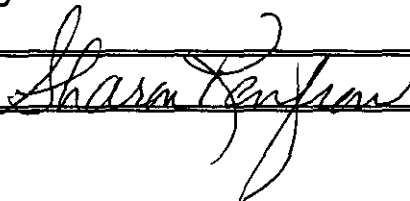
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 31, 2007

Recorder Job Number: # 2475

Committee Clerk Signature



Minutes:

**Sen. Urlacher** called the committee back to order for action on SB 2291 and mentioned an amendment that Sen. Potter offered.

**Sen. Oehlke**: in light of the bill we just passed that's relative to property tax reduction, does it make sense to pass this one even as amended?

**Sen. Oehlke**: made a Motion for **DO NOT PASS**, seconded by Sen. Cook.

Roll call vote: 4-3-0      Sen. Oehlke will carry the bill.

**FISCAL NOTE**  
**Requested by Legislative Council**  
01/18/2007

Bill/Resolution No.: SB 2291

**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
<b>Revenues</b>			(\$128,653,000)			
<b>Expenditures</b>						
<b>Appropriations</b>			\$9,200,000			

**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).*

SB 2291 establishes an individual and corporate income tax credit for a portion of the property taxes paid by the taxpayer.

**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.*

The estimated fiscal impact of Section 1 is \$137,853,000 in total income tax credits. Of this amount, an estimated \$128.653 million will be claimed on income tax returns and will reduce state general fund revenues. It is estimated that \$9.2 million of those tax credits will exceed the net tax liability of the taxpayer, and will be rebated in the form of tax certificates as set forth in Section 1, Number 4 of the bill.

**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.*

Section 3 of the bill appropriates \$9.2 million to the tax commissioner for payments to counties for property tax certificates issued.

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/29/2007



PROPOSED AMENDMENTS TO SENATE BILL NO. 2291

Page 1, after line 19, insert:

"e. The tax credit for a taxpayer under subdivisions a, c, and d may not exceed five hundred dollars in a taxable year."

Renumber accordingly

Date: 1-31-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2291

Senate Finance & Tax Committee

Check here for Conference Committee

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

Action Taken Do Not Pass

Motion Made By Sen Oehlke Seconded By Sen Cook

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson		✓
Sen. Tollefson	✓		Sen. Horne		✓
Sen. Cook	✓		Sen. Triplett		✓
Sen. Oehlke	✓				

Total (Yes) 4 No 3

Absent 0

Floor Assignment Sen Oehlke

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

**REPORT OF STANDING COMMITTEE**

**SB 2291: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO NOT PASS (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2291 was placed on the Eleventh order on the calendar.**

2007 TESTIMONY

SB 2291

**SB 2291, Introduced by Sen. Tracy Potter to Senate Finance and Tax Committee**

SB 2291 is a property tax relief act based on Governor Hoeven's basic level of relief, but delivered through the income tax system. It is offered as an alternative - not an addition - to the Governor's plan.

The essence of the plan is that a new line would be created on the state tax forms granting home owners a 10% credit for property taxes paid. Commercial and farm properties would receive a 5% credit for property taxes paid. The fiscal note for that part would be the same as the Governor's \$118 million. The difference, of course, is in the delivery method.

Many people who need the relief the most pay substantial property taxes on their homes with little or no income. As the state constitution prohibits the state from giving gifts, Legislative Council suggested that we couldn't send a refund to people beyond their income tax liability - but we could provide them with a certificate to help pay their property taxes. The Tax Department has estimated that the state would distribute about \$9.2 million in those certificates.

This bill includes a 2% income tax credit for renters. While renters do not directly pay property tax, the amount of their rent certainly includes their share of the landlord's property tax bill. Renters have been hit as homeowners have by rising property taxes. In the long run, with lower commercial property taxes, residential rents will adjust - the market will work - in the long run. In the short run, however ... it will be a rare instance where a renter will feel an immediate benefit from the Governor's tax relief plan.

With a 2% rate, a renter paying \$500 per month would receive a \$120 income tax credit.

One other group was left out of the Governor's plan and those are the mobile home owners. This bill grants them the same credit as residential homeowners.

The fiscal note is \$138 million.

Mr. Chairman, members of Senate Finance and Tax, the people of North Dakota want two things from us: they want us to adequately fund education and government services and they want us to help them with their property taxes. This bill does the latter. We can do this, we can pass the Governor's budget, and we still have more than \$400 million left in the bank. Too much, I think.

But, one thing at a time. Here's one thing: property tax relief through the income tax system. I urge your serious consideration of SB 2291.

SENATE FINANCE AND TAXATION COMMITTEE

Testimony of Marcy Dickerson, State Supervisor of Assessments  
Senate Bill 2291 – January 30, 2007

Mr. Chairman, Members of the Committee, for the record my name is Marcy Dickerson and I am employed by the State Tax Commissioner as State Supervisor of Assessments and Director of the Property Tax Division.

I assisted in preparation of the fiscal note for this bill. It is based on taxes levied, not taxes paid. The county abstracts provided to the Tax Department include tax dollars levied but no information on tax dollars paid. It would simplify and reduce the cost of administration for counties and the Tax Department if this bill referred only to taxes levied.

If you choose to retain provisions for taxes paid, some language changes are necessary. First, language concerning payment of taxes during the taxable year is unworkable. Property taxes are not due until the year following the taxable year. For example, 2006 property taxes became due and payable January 1, 2007, and the first installment becomes delinquent after March 1, 2007. The second installment becomes delinquent after October 15, 2007.

Mobile home taxes are due during the taxable year for which they are levied. For example, 2007 mobile home taxes became due January 10, 2007. The mobile home tax is due and payable January 10 of each year or ten days after the mobile home is purchased or first moved into the state: Penalty attaches after 40 days. If the amount of the tax is \$40, it may be paid in two installments. The first installment is due January 10 and becomes delinquent March 1. The second installment is due June 1 and is delinquent July 1.

If you choose to retain provisions for taxes paid, there must be a cut-off date for payments to qualify. Perhaps that could be prior to the date penalty attaches. Also, language

should be added to limit credit to taxes paid for the specific taxable year. Taxes paid may include payments for delinquent taxes, penalty, and interest.

I think the wording "paid by the taxpayer" is a problem. Property taxes paid by a lender, a common situation, are not technically paid by the taxpayer. Rather, they are paid on the taxpayer's behalf. There is also the situation in which a relative or guardian pays the taxes for a property owner. Who is considered the taxpayer? Who is eligible for the credit? It may be better to provide the credit to the property owner rather than the taxpayer.

The provision allowing a renter to carry forward an unused portion of the credit will be useless to a renter who has no income tax liability. There are many low-income renters whose income is below the threshold for an income tax filing requirement. Should they receive a check from the state? That is how the renter's property tax refund portion of the homestead credit program works.

That concludes my prepared testimony. I will try to answer any questions.