

2009 HOUSE FINANCE AND TAXATION

HB 1331

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1331

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 01/21/09

Recorder Job Number: 7487

Committee Clerk Signature *Woi Engelson*

Minutes:

Chairman Belter opened the hearing on HB 1331.

Rep. Larry Bellew, District 38 offered testimony in support of HB 1331. See Testimony 1, attached.

Chairman Belter: Does this cover all retirees?

Rep. Bellew: That was my intent. Yes.

Rep. Drovdol: Is it possible that retired military personnel could list North Dakota as its residence and not live here.

Rep. Bellew: I imagine that is possible.

Rep. Headland: Is anybody who served, whether they served the minimum service, are they considered retired?

Rep. Bellew: No, they are not. If you are in the National Guard or Reserves you can't start drawing that pension until you are 60.

Rep. Grand: Is it 20 years?

Rep. Bellew: There may be some exceptions to that.

Rep. Pinkerton: Isn't it true that retirees from the military pretty much have their own medical coverage? Instead of using the local coverage, they are able to use the military facilities.

Rep. Bellew: I do believe retired active duty military people do get their medical coverage. I'm not familiar with all their benefits.

Chairman Belter: All retirees are covered under Tricare, and Tricare is covered by any hospital. I'm not even sure if retirees even use the facilities or not because retirees do not have to go to a military institution for medical care.

Rep. Pinkerton: A lot of them don't get a lot of retirement, do they? If they are like colonels, it's a pretty good retirement. But these older retirees, a lot of them, their retirement is not a whole lot of money.

Chairman Belter: It's all based on rank and years of service.

Rep. Froseth: Is the medical benefit plan for family?

Chairman Belter: Yes.

Sen. Connie Triplett: My interest in this bill is that I come from District 18, Grand Forks. Part of my district is actually on the Grand Forks Air Force Base. I recently finished serving for 16 years as a county commissioner in Grand Forks County. In that position we were privileged to have a fair number of job applications for positions who were retired air force. The reason we want the state to encourage these people to stay here is that these people make fine employees. The military does an excellent job of training people. They come to a job with a sense of discipline, a sense of commitment to their work, and a sense of teamwork. They understand human resource issues. They understand sexual harassment issues. I think that they are a group of people that we really want to encourage to have as employees of this state. While we are short of employees, I think it's a good time to be doing something to attract that kind of person, either to stay when they retire, or possibly come back if they have already left. I did speak with our county veteran service officer from Grand Forks. She does the briefings at the Grand Forks Air Force Base on a monthly basis for people who are about

to retire. I asked her if this question comes up. She said it does come up frequently. There are other states that do offer this kind of exemption. There is that kind of competition between states when people are thinking about the availability of decent jobs. I'm sure you will discuss the size of the fiscal note when you discuss this bill. Doing a little bit of research on that, it appears that the fiscal note is based on the fact that there are about 4300 retirees in North Dakota right now who are paying income tax on their retirement, and if you crunch the numbers, it averages about \$18,000 per year. It's about \$1200 a month is right on average. Individually it depends entirely on time and service and rank. If you consider that people in the mid career, after 20 years of service, will have some sellable skills, and hopefully we would be able to get management sorts of jobs where they might be earning in the range of \$50 to \$60,000, it really would only take one third of the number who are already getting retirement in the state and paying income taxes on it to even it out. I think the Tax Department would tell you that it would probably take about 1500 people working in that \$55,000 range to offset the 4500 that now are paying the taxes. It's not unrealistic to think of this as an investment in our future in terms of workforce development as opposed to thinking of it as a cost. It may take a few years to convince 1500 people to stay here or come back, but I think it's feasible that you could do that and that it would make a dent in our jobs right now that are going without applicants, and I think it would send a really positive message to our veterans.

Rep. Headland: Is it fair to the remaining taxpayers in the state that we allow somebody who is trained on the taxpayer dollar in a specialized area that after 20 years of work, allow them to retire and go into the private sector and possibly make an enormous amount of money and not be taxed on it?

Sen. Triplett: The bill does not say they wouldn't be taxed on their job or their second career. They are only not taxed on the retired pay.

Rep. Pinkerton: We live in Minot so it affects us more. When we look at hiring employees, we always look this medical care cost thing. We provide a portion of the Blue Cross Blue Shield. If we are able to hire retired military, they almost always will use their retired military medical insurance coverage rather than us having to pay it. I don't know what your history with the county is, but I would guess that most of those county employees are not using your health plan.

Sen. Triplett: We have in the last couple of years put a policy in affect to encourage them not to double dip in that way. That's not just military people but anybody who has the opportunity to have full sets of coverage.

Rep. Froseth: Do you really think this North Dakota state income tax credit is enough to make a difference for that retired person to stay in the state? Our North Dakota taxes are pretty small. Do you think that would really make that much difference to that retired person?

Sen. Triplett: I've had a number of active duty military people ask me to bring this bill. I did discuss it with the Grand Forks County Veteran's Service Officer, and she said it's a topic of discussion every single month when she does briefings for people who are retiring. I think it will make a difference for some people. One of the things that always comes up in these new projects is we don't know exactly how it's going to work. It might not be a bad idea to put a sunset on it and give it four or six years and come back and look at it again. If the numbers do not change depreciably, to take it out of the law.

Chairman Belter: Further testimony in support of 1331.

Rep. Blair Thoreson: I'm Rep. Blair Thoreson from District 44 in north Fargo. I support this bill. I introduced this bill in a very similar form two years. We thought it was the right thing to do then, and again we think it is the right thing to do. I just want to touch on some of the things that were brought up as to whether this would be something which would bring people back to

North Dakota who otherwise would not be here. I believe the answer is yes, because I have spoken to at least one retiree from the military. He came back from North Carolina where you would not have had to pay income tax. He loved this state and wanted to return home. But he said there is a lot of discussion amongst members of the military. Especially those who are about to retire as to where they can go and where is the best situation for them fiscally. Why should they stay here if they can go to the states that Rep. Bellew had listed. Or in addition to that, there were quite a few states that do not have personal income tax. I think in this particular case we can use this as a tool to bring those people into North Dakota if they see that we agree this move forward. They probably have had some exposure to our state, and they would be willing to come here. I would ask you give this bill a do pass.

Chairman Belter: Do you have any idea how many retirees we have in North Dakota now.

Rep. Thoreson: We can get you that later.

Chairman Belter: Any further testimony in support of 1331? Any opposition to 1331? Any neutral testimony?

Joseph Becker: Regarding your question regarding the number, the fiscal note was based on information we received from the Department of Defense broken down by state. It indicated that there are 4395 retirement recipients. Actual retirees is in the neighborhood of 4600.

Rep. Brandenburg: What is the difference between retirees getting benefits.

Joseph Becker: I think the information from the Department of Defense is just indicating they have 4600 retirees on record but at the present time they are only paying a number of them.

Rep. Brandenburg: Would that mean about 205 aren't receiving benefits right now?

Joseph Becker: I'd have to get back to the Department of Defense to find out what that difference represents.

Chairman Belter: So we're looking at about \$1,000 per retiree then.

Joseph Becker: No, it would be less than that because it's on a biennium.

Chairman Belter: On a biennium would it be over 1000?

Joseph Becker: In arriving at the fiscal impact an average tax rate of .0357. 3.5%

Rep. Grande: When you are talking about the Department of Defense numbers, does that include the National Guard?

Joseph Becker: They do list Army, Navy, Marines, Air Force, Coast Guard. Whether that includes the National Guard or reserves, I'd have to follow up on that.

Rep. Pinkerton: Do you have the numbers for South Dakota which has a different tax structure than we do?

Joseph Becker: South Dakota has a total number of retirees of 6811 of which approximately 6400 are receiving benefits.

Chairman Belter closed the hearing on 1331.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1331

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 26, 2009

Recorder Job Number: 7783

Committee Clerk Signature

Minutes:

Chairman Belter: HB 1331 is Representative Bellew's military retirement bill. What are the committee's wishes? It has a fiscal note of \$5.6 million which exempts military retirement from income tax. I have a motion for a "do not pass" from Representative Drovdal and a second from Representative Brandenburg. Any discussion?

Representative Drovdal: I hate to be called unpatriotic again as I was when I wouldn't support mandating the American flag be on the floor. We want these people to stay in North Dakota; there is no doubt about that. Will this do the job? I don't really think so. Maybe one family may come, but the \$5.6 million price tag on this came out to \$635 in taxes that each of these couples would save. In order to have \$635 in taxes, they would have to have \$55,100 in income. I don't know if that is going to be a big factor when North Dakota is already at the bottom of the totem pole in tax rates and we are talking about lowering that. I don't think this is an effective way to spend \$5 million. I appreciate the military and what they do and do not feel that this is a patriotic bill.

Representative Brandenburg: I compliment the people who have their hearts in the right places, but instead of \$5 million for retired veterans, I would rather see the money put into recruiting younger people going to college, going to Iraq, etc. I am retired military. I served my

time and I am happy with what I did. I really think we need to use those benefits to recruit younger people.

Chairman Belter: Will the clerk read the roll for a “do not pass” on HB 1331. A roll call vote resulted in 9 yeas, 4 nays and 0 absent/not voting. Representative Brandenburg will carry the bill.

FISCAL NOTE
Requested by Legislative Council
01/13/2009

Bill/Resolution No.: HB 1331

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$5,600,000)			
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 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 1331 creates an individual income tax deduction for military retirement pay on the state's primary individual income tax return, Form ND-1. The bill also modifies the existing military retirement pay deduction that is currently available on Form ND-2.

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 1331, if enacted, creates a complete deduction on both income tax forms for military retirement pay. This is expected to reduce state general fund revenues by an estimated \$5.6 million in the 2007-09 biennium.

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:	01/20/2009

Date: January 26, 2009

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1331

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Do Not Pass Amended

Motion Made By Drovdal Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	/		Representative Froelich		/
Vice Chairman David Drovdal	/		Representative Kelsh	/	
Representative Brandenburg	/		Representative Pinkerton		/
Representative Froseth	/		Representative Schmidt		/
Representative Grande	/		Representative Winrich		/
Representative Headland	/				
Representative Weiler	/				
Representative Wrantham	/				

Total (Yes) 9 No 4

Absent 0

Floor Assignment Brandenburg

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

REPORT OF STANDING COMMITTEE (410)
January 26, 2009 5:35 p.m.

Module No: HR-15-0976
Carrier: Brandenburg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1331: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (9 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1331 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1331

Testimony 1
HB 1331
January 21, 2009

House Finance and Tax Committee

HB 1331 Testimony

Retired Military Pay

Mr. Chairman and members of the House Finance and Tax Committee, thank you for allowing me the opportunity to introduce and support this bill. HB 1331 is a simple bill. It exempts all military retire pay from North Dakota State Income Tax.

I am introducing this bill on behalf of all military people in this state. Our military have sacrificed tremendously over the years. If not for them, where would this country be now? To me, this is the right thing to do for our military. It is my hope that passage of this bill will entice more retirees to stay in North Dakota and maybe some will return. If these retired veterans choose to remain in North Dakota, they will buy houses, groceries, medicines, etc; thus contributing to our economy. I believe that these will more than make up for the reduction in income tax collections. The following states have exempted all military pay from state income tax: Alabama, Kansas, Massachusetts, and New Jersey (Exempt if 62 or older or if disabled), Ohio, Hawaii, Kentucky, Michigan, Pennsylvania, Illinois, Louisiana, Mississippi, North Carolina, and Wisconsin. Mr. Chairman, I ask for this committee's support for this bill. Thank you.