

2009 HOUSE FINANCE AND TAXATION

HB 1521

# 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB1521**

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 7974

Committee Clerk Signature

Minutes:

**Chairman Belter:** We will begin the hearing on HB1521.

**Representative Wrangham: (Testimony 1).**

**Dustin Gawrylow, Executive Director, North Dakota Tax Association:** This bill is a quick and easy way to send back some of the money. The only possible objection that we have is that it is temporary and has a sunset. We would like to see it made permanent.

**Rick LaFleur, Devils Lake:** All of us have benefitted from living in North Dakota. As a shareholder to stand equal with your brother and sister in the state, it is sales tax that will provide the greatest relief to the most shareholders. I stand in support of this bill for that reason. If we can prevent the build-up of great reserves and carefully craft how we spend the reserves we have, we will have the most responsible outcome. A huge balance is not advantageous to shareholders, let's let the shareholders in the state spend the money the best way they can, let's have a responsible government that will satisfy the needs of our state, and let's create a careful balance so our state's future looks bright.

**Lynn Bergman, Taxpayer: (Attachment 2).** In the last general election, one third of the voters wanted a \$415 million income tax cut. If one assumes that the remaining two thirds of the voters did not want an income tax cut and that one out of four of those voters felt like they

were going to get something from either of the governor candidates in the amount of \$500 million in tax cuts, two things become obvious to me. First, at least half of the voters want \$500 million in tax cuts. That was the minimum both candidates proposed and slightly over the \$415 million tax cut. The second thing is that the number of voters benefitting from higher taxation has not yet quite reached 50%. Representative Wrangham's proposal is modest in two respects. It is only a half cent reduction and it will sunset in two years. Given the lukewarm response to the recent property tax rebate, which quite honestly the people I work with laughed at as individually it wasn't enough to get their attention on their paychecks, I would recommend the committee strongly consider amending this to a 1% cut and leaving the sunset clause in because we are headed for a bit of a national recession or eliminate the sunset clause and leaving that one half cent and seeing if that can help us through that recession or both. (He explained his hand outs and how the poor suffer more from sales tax and this offers them some relief. He feels this puts money in people's pockets and is a good way to stimulate the economy.)

**Robert Harms:** I am here today on my own behalf. In the last legislative session, we increased general fund spending by 24%. The proposal before you this session is to increase general funds spending by 26%. Yet we still have enough in reserves, based upon the Governor's proposed budget, to allow the state sufficient funds to pay for the tax proposal before you. Three reason this bill makes sense for ND, in addition to being able to afford it:

1. It will make ND more competitive from a business perspective and take us from 17<sup>th</sup> highest in sales tax to something below that.
2. The regressive nature of the sales tax and how it affects the least able to pay in the state. The paper today has an indicator of where the poorest in our state sit in terms of

Hearing Date: January 28, 2009

our economy. In 2003 we had 39,000 North Dakotans using food stamps, in 2007 we had 45,000 using food stamps. Our economy has been pretty good lately, yet we have 48,000 in ND using food stamps last year, an increase of 3,000 people. This would give these people some relief.

3. You are going to be looking at sales tax, corporate income tax, property tax and I recommend you keep this as one of the tools to adjust tax policy in ND.

**Chairman Belter:** Any further testimony? Any opposition? Any neutral testimony? If not, we will close the hearing on HB1521.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1521

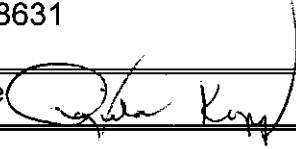
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 4, 2009

Recorder Job Number: 8631

Committee Clerk Signature



Minutes:

**Vice Chairman Drovdal:** HB 1521 has to do with the 4½% sales tax, reducing sales tax ½% with a sunset clause of two years. You have HB 1521 before you. I have a “do pass” by Representative Wrangham and a second by Representative Froehlich. Any discussion?

Seeing none, will the clerk read the roll call backwards. **A roll call vote resulted in 8 yeas, 5 nays, and 0 absent/not voting. Representative Weiler will carry the bill.** It has a fiscal note so it has to be referred to appropriations.

Note: This vote was reversed in the afternoon resulting in a “do not pass” on HB 1521 with **7 yeas, 6 nays, and 0 absent/not voting. Representative Brandenburg will carry the bill.**

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1521

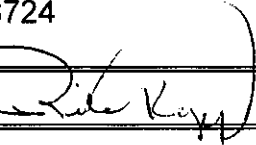
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 4, 2009 PM

Recorder Job Number: 8724

Committee Clerk Signature



Minutes:

**Vice Chairman Drovdal:** There is a motion on the floor to reconsider our action on HB 1521 from Representative Brandenburg and a second from Representative Headland. I guess we can vote on it. We don't need to discuss it. We will take a voice vote on reconsidering our "do pass" action on HB 1521. **The motion carries with 2 nay votes.** Any discussion?

**Representative Brandenburg:** I move a "do not pass" on HB 1521 and a second from Representative Froseth. Any discussion? **A roll call vote on a "do not pass" on HB 1521 resulted in 7 ayes, 6 nays and 0 absent/not voting. Representative Brandenburg will carry the bill.**

**FISCAL NOTE**  
**Requested by Legislative Council**  
01/20/2009

Bill/Resolution No.: HB 1521

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			(\$130,000,000)			
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 1521 reduces the general sales and motor vehicle excise tax rate from 5% to 4.5% for one biennium.

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.*

If enacted, HB 1521 is expected to reduce state general fund revenues by an estimated \$130 million during the 2009-11 biennium.

There may be a slight change in revenues to the state aid distribution fund due to timing, but the formula was constructed to prevent significant changes to that fund solely due to a change in the sales tax rate.

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.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/27/2009

Date: 2/4/09

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1521

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 Wrangham Seconded By Froelich

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

Total (Yes) 8 No 5

Absent 0

Floor Assignment Rep Weiler

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

Refer to Appropriations

Date: 2/4/09

Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1521

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 Brandenburg Seconded By Froseth

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 Wrangham		/			

Total (Yes) 7 No 6

Absent 0

Floor Assignment Representative Brandenburg

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

*Revoted on in afternoon*

**REPORT OF STANDING COMMITTEE (410)**  
February 5, 2009 11:40 a.m.

**Module No: HR-22-1752**  
**Carrier: Brandenburg**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1521: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (7 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING). HB 1521 was placed on the Eleventh order on the calendar.**

2009 TESTIMONY

HB 1521

Testimony!  
January 28, 2009

Testimony on HB 1521  
Representative Dwight Wrangham

North Dakota is in solid financial condition. Unlike most all other states we have a huge ending fund balance. We have collected tax dollars in excess of our budget. This balance leaves us with a couple of questions? Should we spend the ending fund balance, increase government spending and continue collecting tax dollars at the current rate? Or. Should we hold the line on spending, save some of the ending fund balance and reduce the tax load in the upcoming biennium.

It will not be hard to spend the ending fund balance and continue to grow government. We have no shortage of suggested ways to spend and grow government. But that is not what we are being told to do by the citizens of North Dakota. The public outcry has been and is "Don't spend all of the money."

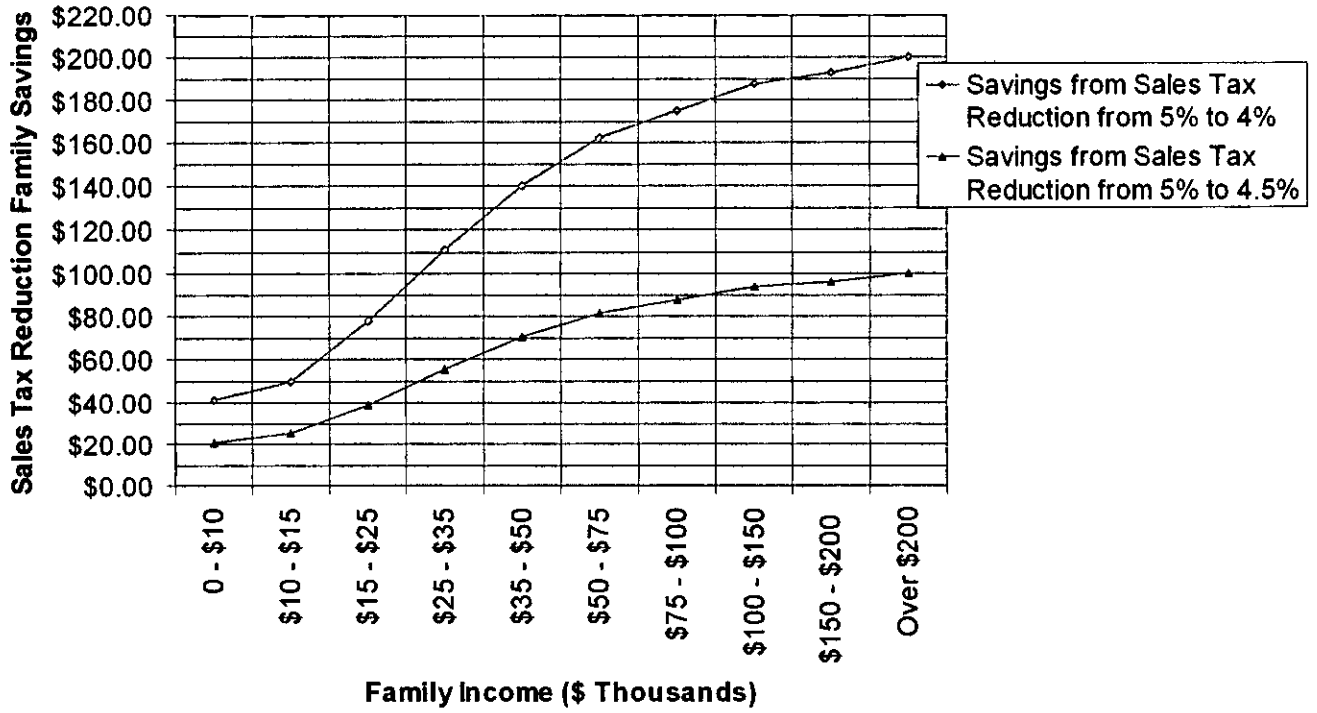
There are also bills to hold the line on spending, save some of the ending fund balance and reduce the tax load in the upcoming biennium. We have many bills aimed at tax relief. Reduction in property tax, income tax and sales tax are all being studied.

The property tax issue is a tough one. The amount of property tax dollars we pay is dictated by the amount of the local entity's budget. The local elected officials have the responsibility and authority to set those local budgets. Mills and evaluations are often cited as being responsible for high property tax bills. State government may have some influence over mills and evaluations but mills and evaluations are only a part of the formula used to distribute the property tax burden. The local entity budget is the driving force that dictates the number of dollars collected from property owners. State government has no control over local budgets.

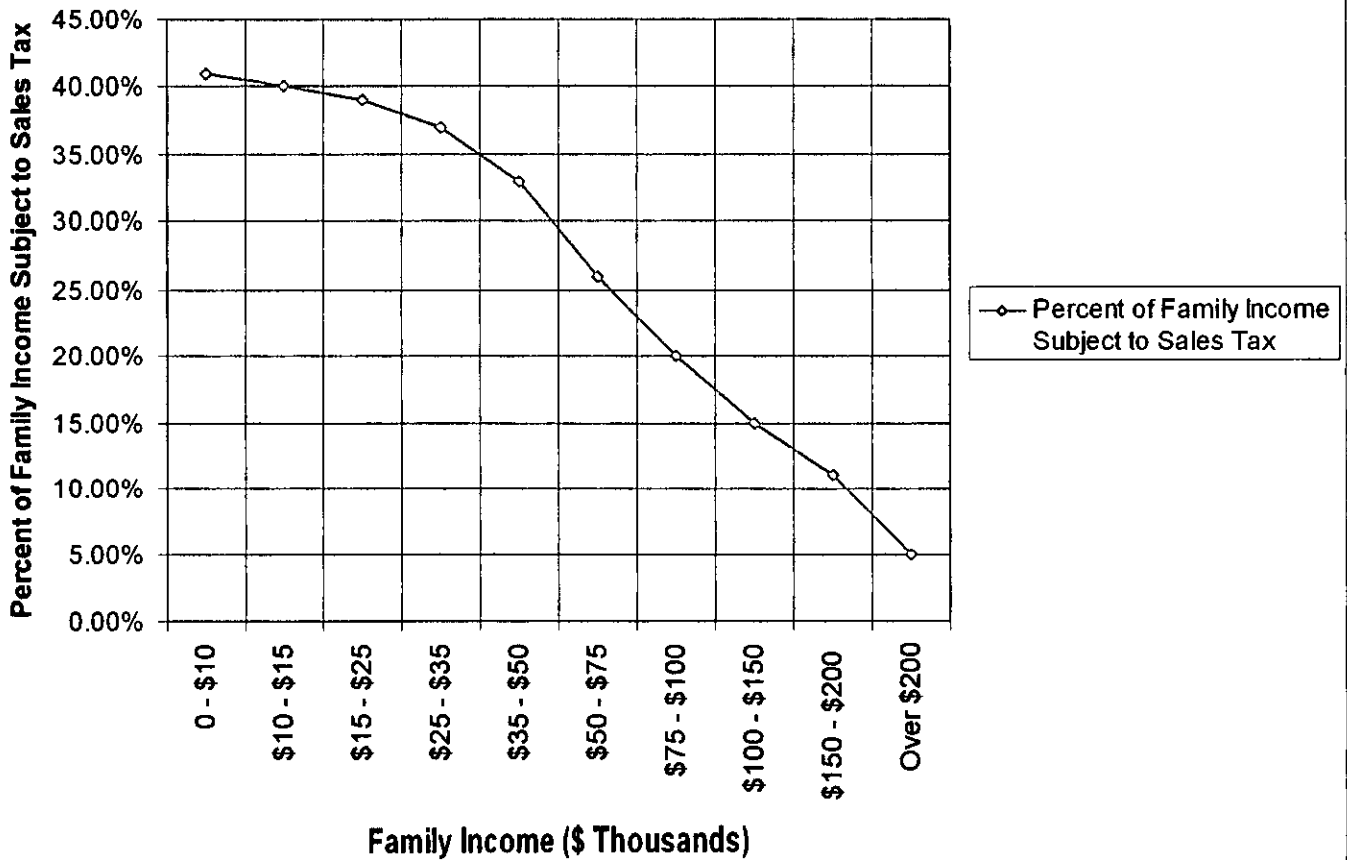
North Dakota ranks 40<sup>th</sup> out of 43 states in per capita dollars collected by individual income tax. In my opinion, North Dakota's individual income tax is not a source of heartburn.

North Dakota ranks 17<sup>th</sup> out the 50 states in per capita dollars collected by sales tax. In my view sales tax is the state tax we should reduce. In addition to being higher in the national rankings, sales tax is the most regressive of all taxes. Sales tax is more onerous on the least able to pay. Because sales tax is the most logical tax to cut, I have introduced a bill, HB 1521, which will reduce the North Dakota sales tax rate from 5 % to 4 ½ %. This cut would save North Dakota taxpayers approximately 130 million dollars. Dollars they can spend in the marketplace. I think we can all agree the citizens spend money more wisely than government.

**Annual Family Income vs Annual Savings from Sales Tax Reduction AB 1521**  
 (using 2004 data, latest available)

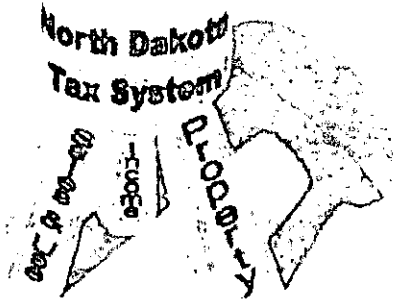


**Estimated Percent of Family Income Subject to Sales Tax**  
 (This is why the sales tax is called a "regressive" tax)



# An Overview of Major State and Local Taxes in North Dakota

## North Dakota Tax System



*North Dakota's Tax System is Like a 3-Legged Stool*

### FY 2008 Collections (in Millions \$)

<b>1. Sales/Use Taxes</b>	<b>= \$530.3</b>	<b>33.6%</b>	<b>(State)</b>
<b>2. Income Taxes</b>	<b>= \$308.9</b>	<b>19.6%</b>	<b>(State)</b>
<b>3. Property Taxes</b>	<b>= \$740.5</b>	<b>46.9%</b>	<b>(Local)</b>

0.0%    10.0%    20.0%    30.0%    40.0%    50.0%