

2013 HOUSE FINANCE AND TAXATION

HB 1394

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee

Fort Totten Room, State Capitol

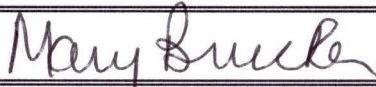
HB 1394

January 28, 2013

Job #17830

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to a reduction in the rate of state sales, use, and motor vehicle excise taxes.

Minutes:

Attached testimony #1.

Vice Chairman Headland: Opened hearing on HB 1394.

Representative Becker: Introduced bill. See attached testimony #1. The explanation on the workings of this bill is extremely simple; the sales tax, use tax, and motor vehicle excise tax shall be reduced from 5% to 4 percent. The supporting argument for it is also very simple. (Referred to attached testimony to discuss the history of taxes) There really shouldn't be a need to increase sales tax because as the population grows and as commerce grows so does the revenue from the sales tax. An increase in sales tax would indicate to me an increase in the scope of the government. (Referred back to the attached testimony for further discussion) Some of my colleagues have indicated they don't really want to see it decreased or eliminated because sales tax, a consumption tax, is arguably the fairest tax. People with more money spend more and all of that spending gets taxed. We are looking at simply decreasing it by 1 cent or 20% of overall tax. It's a decrease that helps the citizens of the state get some tax relief but it still maintains sales tax as a significant source of tax revenue. North Dakota is worse only second to Alaska in tax burden, taxed on a percentage of income. We are worst really because Alaska gets their big oil checks so the government is giving it back. We are either number one or two as far as local and state tax burden goes. I think the thing that is overall the most compelling is the decrease from five to four percent. The estimated revenue from a 5% sales tax in 2013 is \$1,340,939,522. If we assume that estimate is realistic and decrease the tax to 4% the revenue from the sales tax would be \$1,072,751,617. If you compare that to the total sales tax, use tax, and motor vehicle excise tax in 2011 that \$791,691,834 so that means if we did this decrease which would decrease overall revenues to the state we would still have 35.5% more revenue from sales, use, and excise tax with the 4% in 2013 than we had at 5% in 2011. I feel that if we were able to get by in 2011 that we can get by with 35.5% more in 2013.

Representative Zaiser: Most economists regard sales or consumption tax as a regressive tax because most of them believe that it really impacts the lower socio-economic strata

because they have to buy the basic supplies as well. On the other hand by lowering the excise tax you get a break on the high end goods. Do you feel this is more of a progressive tax or a regressive tax?

Representative Becker: I think there are several economists, not most, which suggest the sales tax is a regressive tax. It depends on the notion of where money is placed and I think your argument would hold the greatest weight if we were looking at doing consumption and get rid of all income tax and do a 20% consumption tax. Then we could say that may be a bit regressive. Essentially folks with more money spend more money. Together with other forms of tax reform allows the citizens some relief when they should be getting it. We're spending all of the revenue we are seeing from the energy sector so however much is coming in we are spending. I'd like to see a little less come in. The money that stays in the taxpayers' pockets is spent more efficiently and drives the economy better than when it comes into the government's pockets and they distribute it how they will after taking out all the administrative costs and wastes.

Representative Haak: Is there anything in this bill if we would lower the sales tax to eliminate political subdivisions from raising it up again?

Representative Becker: There is a limit on how much a political subdivision can have for a tax and I believe it's 2.99.

Representative Marie Strinden: Will this bill restrict the cities and counties in any way?

Representative Becker: I don't know but I don't believe so.

Representative Drovdal: If we took out the energy taxes and just figured the taxes for the individuals that are actually paying, where would we rank?

Representative Becker: I don't know. We would obviously have to wait.

Representative Drovdal: It's dangerous to use a chart like this because oil and gas alone is giving \$2 billion into the state treasury and then there's coal so it's an unfair comparison and we're really not that bad of a tax state.

Representative Becker: I will admit that when I saw that I viewed it as pretty nice fluff to give a supporting argument when there is probably a little more to it so even if you took that page out just look at the rest of the information.

Representative Kelsh: If you look at South Dakota they also tax groceries and their speeding fines are ten times greater than ours and the fees on licensing and things are greater than ours and so is their property tax. When you talk about them having a 4% sales tax with 0% income tax doesn't really accurately reflect the entire picture of what their taxing rate is compared to North Dakota.

Representative Becker: We can agree that there are greater complexities than this simplified version I gave and I agree with you. Can we get by with 35.5% greater revenue than we did in 2011?

Chairman Belter: Further testimony in support of 1394?

Sandy Clark, North Dakota Taxpayers Association: We stand in support of HB 1394 to reduce the sales tax by one percent. We think this is an excellent method to return budget surplus money to the taxpayer. The government should not collect more revenue and more tax than it needs to operate the government. We would concur with the bill sponsor as this is a way to grow the economy. If citizens have more money in their pocket then they are going to spend it and that results in more sales tax income to replace some of the reduction of the lower sales tax rate. This money flows through the economy several times and generates more business. I don't believe there is a cap on those local sales tax and we would strongly suggest that if you adopt this bill that there be an amendment that limits the local political subdivisions on their sales tax upper end. You won't be competitive anymore with other states if you raise sales tax. We like the bill and we think sales tax should be reduced. In the future it would be very difficult to raise the tax so you may want to think about putting in a trigger if your revenues fall below a certain level then it goes up a half percent or a whole percent. That way nobody has to vote for a tax increase as you've made that plan ahead of time. We think this is prudent policy and we support a reduction.

Chairman Belter: Further testimony in support of 1394?

Andrew Bornemann, Kintyre, ND: I support this bill both as a consumer and small business owner. I believe it is good policy to reduce the taxes at times when we can and I believe now is one of those times. According to the Office of Management and Budget report as of 2011-13 biennium brought in 59% more income off the sales tax than was projected in the 2011 session. That number is phenomenal and it shows just how strong our economy is at this point. We can afford to drop that 1% in sales tax and I think it will help stimulate the economy. That money that is saved stays in the pockets of our citizens and they will spend that money which further stimulates the economy.

Representative Froseth: It's good that you came in and it's good to hear from the citizens. In reality which relief would you rather see; property tax or sales tax?

Andrew Bornemann: It's a hard question to answer. I would prefer to see lower taxes on all. Sales tax affects everyone while property tax affects property owners. Property taxes are more of a regressive tax where you're being taxed for something you already own. I don't agree in taxing something just because you have it. I would rather see the property tax totally removed.

Chairman Belter: Any further testimony in support of 1394?

Mike Rud, President of North Dakota Retail Association: We stand in support of this as well. I think it is money back into the consumers' pockets and I think its money that will turn over many times.

Chairman Belter: Further testimony in support of 1394? Any opposition to 1394? I have a question for the tax department. I don't believe there is a cap on city sales tax or county tax is there?

Myles Vosberg, Tax Commissioner's Office: That is correct; there is no maximum amount that can be levied for sales tax now in either counties or cities.

Chairman Belter: It has to be a home rule county in order to have a sales tax?

Myles Vosberg: Correct it has to be home rule county or city.

Chairman Belter: When I came to the legislature I thought 1% only raised about \$80 million in a biennium is that about right?

Myles Vosberg: That's probably true. With the growth that we've experienced 1% is a tremendous amount of revenue.

Chairman Belter: Do you have any idea how much of this growth is related to the sales tax from the oil industry?

Myles Vosberg: I don't. There's a lot of revenue from all that expensive equipment if it hasn't been taxed before. The gathering systems for the gas has been exempted so the processing, gathering, and compressing gas and the equipment that goes into that is no longer taxed but there are a lot of consumables that is.

Vice Chairman Headland: If this bill were to pass in its current form then state aid distribution would be reduced by 20%, correct?

Myles Vosberg: The state aid distribution formula is written so that the locals are not impacted from either an increase or a decrease in the rate. The formula is 40% times one over the tax rate and that equals 8% now at the 5% rate and it would equal 10% at a 4% rate so it equals out.

Representative Kelsh: If there's an increase or any imposition of a sales tax on a local level that requires a vote on each of those subdivisions for each imposition or increase in tax?

Myles Vosberg: The original home rule charter requires a vote and then it depends on how the home rule charter is written. Some charters are written so that it gives the commission the authority to impose or increase a tax rate and in most cases it requires a vote of the people.

Chairman Belter: Any other neutral testimony? If not I will close the hearing on HB 1394.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1394
February 6, 2013
Job #18443

☐ Conference Committee

Committee Clerk Signature

Mary Bruckner

Explanation or reason for introduction of bill/resolution:

A Bill relating to a reduction in the rate of state sales, use, and motor vehicle excise taxes.

Minutes:

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Chairman Belter: This is Representative Dockter's bill that reduces the sales tax by one percent.

Vice Chairman Headland: Made a motion for a DO NOT PASS.

Representative Drovdal: Seconded.

Representative Drovdal: We're giving breaks back on income tax and property tax and it seemed logical that we should give the third leg but we found out that if we give that one cent break then every political subdivision within a year will have raised that 1% back up again and there would be no break to the taxpayer. I'm voting for the Do Not Pass.

Chairman Belter: Any other discussion?

Representative Owens: Even if you believe the political subdivisions would behave themselves and not do anything as such keep in mind sales tax is a rebate to everybody that comes into the state as well. By reducing that it is not tax relief for the citizens of North Dakota alone, it's for everybody else and I'd rather focus it on North Dakota citizens.

ROLL CALL VOTE: 14 YES 0 NO 0 ABSENT

Representative Marie Strinden will carry this bill.

FISCAL NOTE
Requested by Legislative Council
01/22/2013

Bill/Resolution No.: HB 1394

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(572,000,000)			
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **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 1394 reduces the sales, use, and motor vehicle excise tax rates from 5% to 4%.

- 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.*

Sections 1, 2, and 3 of HB 1394 reduce the sale, use, and motor vehicle excise tax rates from 5% to 4%. The sales tax rate on mobile homes and the gross receipts tax rates on liquor and farm machinery are not affected by the provisions of this 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.*

If enacted, HB 1394 is expected to reduce state general fund revenues by an estimated \$572 million in the 2013-15 biennium.

- 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

Telephone: 328-3402

Date Prepared: 01/25/2013

Date: 2-6-13
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1394

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Headland Seconded By Rep. Drovdal

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh	✓	
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak	✓	
Rep. David Drovdal	✓		Rep. Marie Strinden	✓	
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Strinden

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

REPORT OF STANDING COMMITTEE

HB 1394: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1394 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

HB 1394

House Bill 1394

Reduce State Sales, Use and Motor Vehicle Excise Tax from 5% to 4%

Rep. Rick Becker D7

History:

1935 – 2%

1967 – 3%

1969 – 4% (to offset repeal of personal property tax)

1976 – 3% (by initiated measure)

1983 – 4%

1986 – 5%

1989 – 6%

1989 – 5% (by referral election)

Surrounding States:

Montana – 0%

South Dakota – 4% (with 0% income tax!)

Wyoming – 4% (with 0% income tax!)

Minnesota – 6.875%

State and Local Tax Burden (Taxes as a Percentage of Income):

ND worst, second only to Alaska (but doesn't consider their oil money returned to citizens)

Effect of Decreasing to 4%:

Estimated revenue from 5% sales tax, et al is \$1,340,939,522.00

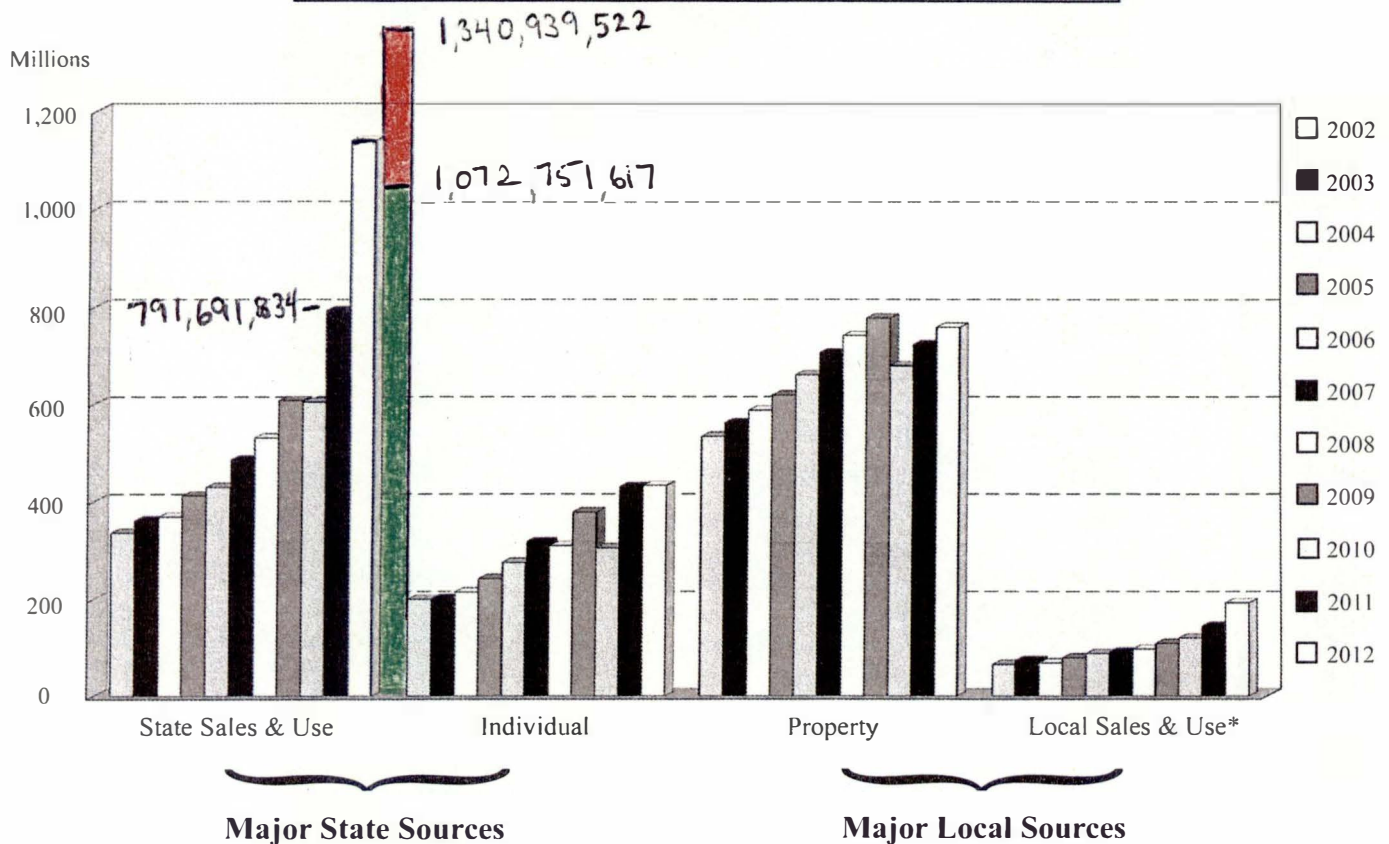
If 2013 estimate was at 4%, revenue would decrease to

\$1,072,751,617.00

Actual revenue in 2011 was \$791,691,834.00

That means that by decreasing the Sales Tax to 4%, the estimated 2013 revenue would STILL be 35.5% GREATER than 2011 revenues. (and that is likely a low estimate!)

Source of Major State and Local Taxes 2002-2012



<u>Fiscal Year</u>	<u>State Sales & Use Tax</u>	<u>Individual Income Tax</u>	<u>Property Tax</u>	<u>Local Sales & Use Tax*</u>
2002	335,598,693	198,922,525	532,629,675	65,368,838
2003	360,908,220	200,528,205	560,751,909	73,666,551
2004	368,323,637	214,145,899	586,412,017	68,644,864
2005	411,553,514	241,319,731	618,065,693	78,761,154
2006	428,906,406	274,621,741	659,789,376	87,563,544
2007	485,986,114	318,433,494	706,427,621	92,143,032
2008	530,283,623	308,889,352	740,540,738	96,566,720
2009	607,170,311	378,135,463	776,398,475	108,264,455
2010	603,732,481	304,252,924	678,749,378	119,411,810
2011	791,691,834	429,899,506	721,988,244	144,237,942
2012	1,139,782,929	432,191,803	757,769,004	191,754,625

* The local sales tax figures do not include city occupancy or city restaurant and lodging taxes.

SOURCE: Office of State Tax Commissioner.

Comparing the 50 States' Combined State/Local Tax Burdens in 2011 (Measuring Taxes as a Percentage of Income)

Each state's total tax burden (taxes as a percentage of income) is a combination of federal, state, and local tax burdens. It can be instructive to strip out federal taxes and compare just the state and local tax burdens. Generally, high-income states rise because, with their high costs of living and commensurately higher salaries, they are hit harder by the progressive federal income tax. Low-income states that have high state-local tax burdens fall in the ranking when federal taxes are added in.

	State and Local			Total		Change in Ranking After Adding Federal Taxes
	Tax Burden	Rank		Tax Burden	Rank	
Alaska	16.8%	1	Alaska	31.5%	4	3
NORTH DAKOTA	11.8%	2	NORTH DAKOTA	27.1%	11	9
Vermont	10.3%	3	Vermont	23.1%	24	21
Wyoming	9.0%	4	Wyoming	22.0%	31	27
West Virginia	8.3%	5	West Virginia	18.6%	42	37
Hawaii	8.2%	6	Hawaii	18.6%	41	35
Delaware	8.0%	7	Delaware	64.1%	1	-6
Minnesota	8.0%	8	Minnesota	38.5%	2	-6
Arkansas	7.8%	9	Arkansas	34.4%	3	-6
Maine	7.2%	10	Maine	19.3%	38	28
California	7.1%	11	California	24.2%	18	7
Mississippi	7.0%	12	Mississippi	16.7%	48	36
New Mexico	7.0%	13	New Mexico	18.3%	44	31
Kentucky	6.9%	14	Kentucky	23.3%	23	9
New York	6.8%	15	New York	27.1%	10	-5
Wisconsin	6.8%	16	Wisconsin	24.0%	19	3
Michigan	6.6%	17	Michigan	22.1%	28	11
Connecticut	6.5%	18	Connecticut	28.5%	8	-10
Indiana	6.4%	19	Indiana	25.3%	15	-4
Montana	6.4%	20	Montana	18.1%	46	26
North Carolina	6.4%	21	North Carolina	22.8%	25	4
Idaho	6.3%	22	Idaho	18.4%	43	21
Massachusetts	6.3%	23	Massachusetts	28.2%	9	-14
Nevada	6.3%	24	Nevada	19.2%	40	16
Pennsylvania	6.0%	25	Pennsylvania	25.1%	16	-9
New Jersey	5.9%	26	New Jersey	30.1%	6	-20
Rhode Island	5.9%	27	Rhode Island	28.6%	7	-20
Kansas	5.8%	28	Kansas	22.7%	26	-2
Ohio	5.8%	29	Ohio	31.4%	5	-24
Utah	5.8%	30	Utah	21.4%	33	3
Washington	5.8%	31	Washington	23.3%	22	-9
Iowa	5.7%	32	Iowa	19.9%	36	4
Oregon	5.6%	33	Oregon	21.0%	34	1
Maryland	5.4%	34	Maryland	22.0%	30	-4
Oklahoma	5.4%	35	Oklahoma	22.5%	27	-8
Nebraska	5.3%	36	Nebraska	25.3%	14	-22
Alabama	5.2%	37	Alabama	17.3%	47	10
Illinois	5.2%	38	Illinois	26.4%	12	-26
Louisiana	5.0%	39	Louisiana	25.4%	13	-26
South Carolina	4.9%	40	South Carolina	16.1%	50	10
Arizona	4.8%	41	Arizona	19.3%	39	-2
Virginia	4.7%	42	Virginia	20.8%	35	-7
Tennessee	4.6%	43	Tennessee	23.9%	20	-23
Georgia	4.5%	44	Georgia	21.7%	32	-12
Missouri	4.4%	45	Missouri	24.9%	17	-28
Florida	4.3%	46	Florida	19.8%	37	-9
Colorado	4.2%	47	Colorado	22.1%	29	-18
Texas	4.2%	48	Texas	23.4%	21	-27
New Hampshire	3.8%	49	New Hampshire	18.2%	45	-4
South Dakota	3.8%	50	South Dakota	16.5%	49	-1
U.S. Average	5.8%		U.S. Average	24.4%		

SOURCE: State Government Tax Collections: 2011, www.census.gov/govs/statetax, US Dept. of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, www.bea.gov/regional