

FISCAL NOTE
Requested by Legislative Council
01/08/2015

Bill/Resolution No.: HB 1160

- 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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(13,300,000)			
Expenditures						
Appropriations						

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 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 1160 changes the interest rate applied to refunds and underpayments of income tax.

- 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 1160 requires the use of the prime rate for income tax refunds and assessments. Based on 2014 statistics, the prime rate would have saved the state approximately +\$650,000 in reduced refund interest paid out during 2014. Use of the prime rate would have reduced the interest payments received by the state by approximately -\$7.3 million during that year. The net effect for a full biennium is estimated to be a loss in state general fund revenues of approximately \$13.3 million.

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 or a part of the appropriation is 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: 01/26/2015

2015 HOUSE FINANCE AND TAXATION

HB 1160

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1160
1/27/2015
22620

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to the interest rate applied to refunds and underpayments of income tax.

Minutes:

No attachments

Chairman Headland: Opened hearing.

Representative Pollert: Introduced bill. (Read part of the bill). I've had discussions with the State Tax Commissioner's Office and I just saw the fiscal note. This is a variable rate over one percent over prime. I'm not married to the variable rate; I would welcome a flat rate if the committee felt that was wise. In the last session there was a senate bill that would have adjusted the interest rate to a flat six percent per year but that change was amended out of the final bill. I was not aware of that. On page 3 section 3 lines 25 and 27, the language provides for a minimum threshold for current year estimated tax payments. Removing that threshold would subject a taxpayer to interest charges for underpayments of any amount in that current year. This section was also amended by the senate last session to increase that threshold from \$500 to 1,000. If this bill was of interest I would ask the committee to amend that section out of the bill. I didn't think that should be part of a lowering of the interest rate and it was not my intent.

Chairman Headland: I think we are all amazed at the number of filers that are using the state tax department as a bank. Are there any questions for Representative Pollert? Is there any support for HB 1160? Is there any opposition? I think we have questions of the tax department.

Representative Trottier: On page 3 lines 25 -27, is there any way to estimate on how it would make a difference in the fiscal note with it being taken out?

Matt Peyerl, Office of Tax Commissioner: I believe Representative Pollert's did not intend to strike that language. If that language is stricken it will require all taxpayers, regardless of their amount due, to make quarterly estimated payments. This existing language requires only those with \$1,000 are required to make estimated payments so the universe of those taxpayers is fairly small. Striking that language wasn't his intent. If that language was left in you would have hundreds of thousands of additional taxpayers being

required to make estimated payments. Some of them might be late so they would incur interest charges. I can imagine a small offset to the fiscal note because of that but I don't believe the fiscal note was written up to account for any change there.

Representative Froseth: Do you see this bill working as a deterrent for people paying their taxes on time? If they can get an interest rate of three, four, or six percent rather than extending it over a year they are paying twelve percent now so it would seem it would be kind of a reverse objective.

Matt Peyerl: Yes, I would assume the high interest rate of 12% is quite a deterrent for being late with your taxes. There is an additional penalty although that is a flat percent normally. The refund interest rate is equal to that so there is a matter of fairness in whatever rate we have and the goal in the past is to keep them relatively the same so that taxpayers are treated fairly. If they underpay and have to pay an interest then subsequently amend that same return to get a refund back they would essentially get back the same amount they paid in.

Chairman Headland: We will close the hearing on HB 1160.

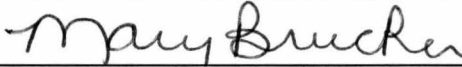
2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1160
2/2/2015
23027

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to the interest rate applied to refunds and underpayments of income tax.

Minutes:

No attachments.

Chairman Headland: This is Representative Pollert's bill that was going to reduce an interest rate charge to people who were late paying their taxes and then the other way around.

Representative Dockter: I'm on the bill but with the fiscal note being in excess of \$13 million I would recommend a do not pass.

Representative Haak: Seconded.

Representative Trottier: If we leave things as they are this is the best investment for every citizen in the state of North Dakota, is that not true? If you overpay your taxes quarterly you earn six percent of your money.

Chairman Headland: I believe it would be twelve.

Representative Trottier: I think it's twelve percent if you underpay but it's six percent if you overpay. I think we need to address it somehow.

Chairman Headland: On the other hand it is certainly an incentive to pay your taxes on time.

Representative Trottier: I would also suggest overpaying them on time.

Chairman Headland: If you want to overpay your taxes so you can get six percent interest I'd be happy to oblige you. Even though it's my running mate's bill and I initially would have thought I'd support it but there are better things we can do with \$13 million at this stage of the game. I'm going to support the do not pass.

Vice Chairman Owens: The interest doesn't kick in until 45 days after you file the return and we've held it so it's not like you can overpay and use it as an investment fund.

Chairman Headland: Is there any more discussion?

Roll call vote: 13 yes 1 no 0 absent

Motion carries for a do not pass.

Representative Mitskog will carry this bill. Vice Chairman Owens volunteered to carry this bill for Representative Mitskog instead but this was stated off the record.

Date: 2-2-15
Roll Call Vote #: 1

**2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1160**

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ _____

Motion Made By Rep. Dockter Seconded By Rep. Haak

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK	✓	
VICE CHAIRMAN OWENS	✓		REP STRINDEN	✓	
REP DOCKTER	✓		REP MITSKOG	✓	
REP TOMAN		✓	REP SCHNEIDER	✓	
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 13 No 1

Absent 0

Floor Assignment Rep. Mitskog Owens

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

*changed carriers
off the record.*

REPORT OF STANDING COMMITTEE

HB 1160: Finance and Taxation Committee (Rep. Headland, Chairman) recommends DO NOT PASS (13 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1160 was placed on the Eleventh order on the calendar.