

**State Tax Commissioner  
Budget 127  
House Bill No. 1006; Senate Bill No. 2201**

	FTE Positions	General Fund	Other Funds	Total
2009-11 legislative appropriation	133.00	\$44,516,586 <sup>1</sup>	\$196,000	\$44,712,586
2007-09 legislative appropriation	<u>133.00</u>	<u>32,716,810</u>	<u>2,800,000</u>	<u>35,516,810</u>
2009-11 appropriation increase (decrease) to 2007-09 appropriation	0.00	\$11,799,776	(\$2,604,000)	\$9,195,776

<sup>1</sup>This amount includes \$12,864,247 of one-time funding. Excluding this amount, the agency's ongoing general fund appropriation is \$31,652,339.

**NOTE:** The 2009-11 legislative appropriation amounts include \$470,000 from the general fund, for the agency's share of the \$16 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for executive branch employees.

**Item Description**

**One-time funding** - The Legislative Assembly identified \$12,864,247 from the general fund and \$100,000 of other funds for one-time funding items. These items, which are summarized below, are not to be considered part of the agency's base budget for preparing the 2011-13 executive budget, and the State Tax Commissioner is to report to the Appropriations Committees during the 2011 legislative session on the use of this funding.

GenTax system loan repayment	\$10,230,247
Onsite support for GenTax system	1,234,000
Integration of oil and gas taxes to GenTax system	1,500,000
<b>Total</b>	<b>\$12,964,247</b>

**Salary equity adjustments** - The State Tax Commissioner received an allocation of \$470,000 from the general fund for the agency's share of the \$16 million funding pool appropriated to OMB for special market equity adjustments for executive branch employees.

**Property tax relief sustainability fund** - Senate Bill No. 2199 (2009) creates a property tax relief sustainability fund and provides for a transfer of \$295 million from the permanent oil tax trust fund to the property tax relief sustainability fund; transfers \$295 million from the permanent oil tax trust

**Status/Result**

The following is a summary of the status of the State Tax Commissioner's one-time funding:

GenTax system loan repayment	The balance of \$10,230,247 on the GenTax system loan was paid in July 2009.
Onsite support for GenTax system	FAST Enterprise developers are working onsite with Tax Department and Information Technology Department staff. The \$1,234,000 is allocated to the developers in monthly payments.
Integration of oil and gas taxes to GenTax system	The project began in February 2010 and is anticipated to be completed in October 2010. The estimated cost is \$1 million. The remaining \$500,000 was allocated to build the taxpayer access point (TAP) infrastructure in GenTax, which was completed in January 2010.

The table below provides information relating to the salary equity adjustments provided to employees of the Tax Commissioner's office beginning July 1, 2009:

	Amount	Number of Employees
Accounting staff	\$26,904	7
Audit staff	222,528	48
Administrative staff	43,752	19
Collection and compliance staff	52,368	11
Other staff	56,232	15
Fringe benefits	68,216	
<b>Total</b>	<b>\$470,000</b>	<b>100</b>

The Office of Management and Budget transferred \$295 million from the permanent oil tax trust fund to the general fund on July 1, 2009, and will transfer \$295 million from the permanent oil tax trust fund to the property tax relief sustainability fund on July 1, 2010. The table below provides information as of

fund to the general fund; provides \$295 million from the general fund for property tax reduction grants to school districts; and includes provisions for property tax levies of school districts. The bill also amends individual, estate, and trust tax rates resulting in an estimated \$90 million in tax relief and amends corporate income tax rates resulting in an estimated \$10 million in tax relief, for a total estimated reduction in general fund revenues of \$100 million for the 2009-11 biennium.

**Property tax credits for disabled veterans** - Senate Bill No. 2201 provides an appropriation of \$3 million from the general fund to the State Tax Commissioner to pay the state reimbursement for property tax credits for disabled veterans.

**Homestead "property" tax credit** - Section 1 of Senate Bill No. 2402 (2009) provides for the following changes to the homestead tax credit program for the elderly and disabled:

- A homeowner or renter may not have income exceeding \$26,000 (was \$17,500) per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$4,500 (was \$3,375) (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to a \$100,000 (was \$75,000) reduction in the value of the house; and
- For eligible renters making \$26,000 (was \$17,500) or less per year, the program provides a direct payment of the amount by which 20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$400 (was \$240).

Section 1 of House Bill No. 1006 provides an appropriation of \$5,964,000 from the general fund for the homestead tax credit program, a decrease of \$2,140,000 from the 2007-09 biennium appropriation of \$8.104 million. Provisions of Senate Bill No. 2402 are anticipated to require an additional \$3.823 million of funding for the program for a total of \$9.787 million relating to the homestead credit and renters' refund programs for the 2009-11 biennium.

**Homestead "income" tax credit and commercial property income tax credit** - Sections 6 and 7 of 2007 Senate Bill No. 2032 provided for income tax credits for taxable years 2007 and 2008 in the amount of 10 percent of

June 10, 2010, regarding the number of eligible taxpayers and reduction in general fund revenue from the amended individual, estate, trust, and corporate income tax rates:

	Number of Eligible Taxpayers	General Fund Revenue Reduction
Individual taxpayer	326,612	\$31,344,350
Corporation	2,845	221,713
Total	329,457	\$31,566,063

At the time of this report, no information was available on the total anticipated reduction in general fund revenue from the amended income tax rates.

For information on the property tax reduction grants to school districts see the **Department of Public Instruction** section of this report.

At the time of this report, no information was available on the number of eligible disabled veterans or the total amount provided for reimbursements for property tax credits.

The schedules below present the number of eligible homeowners and renters and the payments made in recent years:

Number Eligible for Program			
Year	Homeowners	Renters	Total
2002	4,341	1,329	5,670
2003	4,060	1,288	5,348
2004	3,923	1,335	5,258
2005	3,817	1,322	5,139
2006	3,516	1,273	4,789
2007	3,677	1,305	4,982
2008	3,466	1,998	5,464
2009	3,715	2,051	5,766

Payments Made Under Program			
Year	Homeowners	Renters	Total
2002	\$1,768,001	\$173,754	\$1,941,755
2003	\$1,676,737	\$172,224	\$1,848,961
2004	\$1,659,707	\$185,807	\$1,845,514
2005	\$1,655,555	\$186,896	\$1,842,451
2006	\$2,025,060	\$182,947	\$2,208,007
2007	\$2,008,310	\$188,418	\$2,196,728
2008	\$2,342,186	\$287,682	\$2,629,868
2009	\$2,396,968	\$302,632	\$2,699,600

Of the \$112 million transferred from the permanent oil tax trust fund to the general fund in the 2007-09 biennium for the two-year property tax relief income tax credit program, \$83,397,879 has been claimed in credits on the 2007 and

property taxes or mobile home taxes that became due during the taxable year.

**Retroactive property tax relief income tax credit** - House Bill No. 1448 (2009) provides retroactive relief to three groups that were ineligible for the credit under the two-year property tax relief program included in 2007 Senate Bill No. 2032:

- Resident individuals, whose primary residence was in North Dakota, who had transferred the title to their North Dakota agricultural property to a partnership, S corporation, or limited liability company in which they held an interest.
- Nonresident individuals, whose primary residence was not in North Dakota, with North Dakota agricultural property, regardless of whether the title to the property was held by the individual or by a partnership, S corporation, or limited liability company in which they held an interest.
- Estates and trusts with North Dakota Agricultural property and/or North Dakota commercial property, regardless of whether the title to the property was held by the estate or trust or by a partnership, S corporation, or limited liability company in which they held an interest.

**Marriage penalty credit** - Section 5 of 2007 Senate Bill No. 2032 provided a married couple filing a joint North Dakota income tax return to receive an income tax credit of up to \$300 per couple to offset the "marriage income tax penalty." The marriage penalty credit was anticipated to reduce general fund revenues by \$8,850,000 during the 2007-09 biennium.

**Military Spouses Residency Relief Act** - The Military Spouses Residency Relief Act is federal legislation that was signed into law in November 2009. The Act extends a number of benefits permitted to active duty United States armed forces service members to their civilian spouses. Beginning with the 2009 tax year, the civilian spouse of a service member is provided the following benefits that affect their state income tax obligations:

- The domicile (or legal residence) of a civilian spouse does not change when he or she moves into a state if (1) the service member is permanently stationed in the state, (2) the service member and civilian spouse are not domiciled in the state, and (3) the civilian spouse is in the state only to be with the service member.
- A civilian spouse's compensation received for work performed in a state is exempt from that state's income tax if (1) the service member

2008 tax returns, leaving \$28,602,121 in the general fund for the retroactive property tax relief income tax credits claimed on the 2009 tax returns. For more information on retroactive credits, see the **Retroactive property tax relief income tax credit** section below.

The following table provides information as of June 10, 2010, on the retroactive property tax relief credits claimed:

	Number of Returns	Tax Credits Claimed
Individual returns	1,087	\$449,350
Fiduciary returns	46	14,769
Total	1,133	\$464,119

At the time of this report, no information is available on the total anticipated retroactive property tax credits that will be claimed.

The following table provides information as of April 29, 2010, on the marriage penalty credits claimed:

	Number of Individual Returns	Tax Credits Claimed
Tax year 2007	19,821	\$2,445,660
Tax year 2008	21,349	\$2,675,009
Tax year 2009	17,417	\$1,961,770

Based on information from the 2008 North Dakota individual income tax returns, the estimated reduction in general fund revenues relating to the Act is approximately \$118,000 for each year of the 2009-11 biennium.

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