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Date

Deanna Hall

10/22/03

2003 SENATE HUMAN SERVICES

SB 2195

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10/17/03
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2003 SENATE FINANCE AND TAXATION

SB 2314

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10/22/03

Date

BILL/RESOLUTION NO. SB2314

☐ **Conference Committee**

Tape Number	Side A	Side B	Meter #
1	X		1370-end
1		X	1-3794
1		X	4375-end
2	X		1-140
2	X		3960-6070

Committee Clerk Signature *Margaret S. [illegible]*

Senator Schobinger (mtr #2200) - Answered with projections and forecasts. Gave answer based on proposed amendment.

Operator's Signature Deanna Waller Date 10/22/03

Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 12, 2003

Senator Urlacher (mtr #2330) - Requested clarification of amendment.

Senator Schobinger (mtr #2344) - Reviewed the amendment and clarified the language.

Amendment brings the bill revenue neutral.

Senator Wardner (mtr #2435) - What is your response in regards to low income people that do not pay income tax at this time?

Senator Schobinger (mtr #2468) - Gave an answer based on a visit with students.

Senator Nichols (mtr #2662) - Question on figures in written testimony.

Senator Schobinger (mtr #2715) - Clarified where funds would come from and how the funds would be redistributed

Senator Nichols (mtr #2804) - To stay revenue neutral, taxes must shift. Who picks up the shift?

Senator Schobinger (mtr #2866) - That assumes a shift. Benefits of a large corporation employing people outweighs the corporate tax not paid. Gave additional detailed testimony.

Senator Nichols (mtr #2984) - Research and data is available that addresses the importance of different components of a decision for a business to locate here. Are many other components.

Senator Schobinger (mtr #3045) - This issue is that important. Many other benefits of ND, this increases our rating as business friendly.

Senator Urlacher (mtr #3149) - Requested clarification from Tax Department.

Senator Schobinger (mtr #3216) - Referenced handout that provides additional information.

Senator Tony Grindberg (mtr #3328) - Testified in support of SB2314. Testimony includes why he supports this bill. Referenced a handout regarding "States without a personal income tax population change comparison". Gave much more detailed testimony as to why he supports this bill.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 12, 2003

Senator Nichols (mtr #4606) - Asked a question regarding the couple he used as an example in his testimony and amount of additional expendable income they would have.

Senator Grindberg (mtr #4705) - Answered on his perception of how this bill will remain revenue neutral.

Senator Nichols (mtr #4756) - Who makes up the shift in taxes?

Senator Grindberg (mtr #4794) - Shift in taxes would be made up by broadening the tax base.

Senator Nichols (mtr #4844) - Summarized that not everyone will see a tax savings.

Senator Grindberg - Deferred question to the tax department.

Representative Ron Iverson (mtr #5112) - Testified in support of SB2314. Passed out Argus Leader printout and referenced it in testimony. Urges a Do Pass.

Representative Jim Kasper (mtr #5397) - Testified in support of SB2314.

Representative Blair Thoreson (mtr #5525) - Testified in support of SB2314. Urges a Do Pass.

Senator Tollefson (mtr #5750) - Testified in support of SB2314. Urges a Do Pass. Very important to the state of ND.

Tape 1, Side B

Dennis Boyd, MDU Resources (mtr #48) - Testified in support of SB2314. Gave extensive background on MDU's position on corporate taxes and sales tax. Recommended option of phase out period for income tax and phase in period for sales tax. Provided written testimony.

Bill Butcher, State Director, National Federation of Independent Business (mtr #492) - Testified in support of SB2314. Written testimony is attached.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 12, 2003

Michael J. Walsh, Business Owner (mtr #745) - Testified in opposition to the bill. Feels services should be kept as affordable as possible. Feels this bill is speculative. Written testimony is attached.

Larry Snider, Business Owner (mtr #1110) - Testified in opposition to SB2314. Problem with taxing collectible coins. Referenced copy of yellow pages ad showing 1-800 number with no sales tax on purchase. Copy of ad attached.

Senator Urlacher (mtr #1385) - Just pointed out to the Chairman that coin purchases are exempt under this plan.

Jon Risch, ND Legislative Director of the United Transportation Union (mtr #1403) - Testified in opposition to SB2314. Written testimony is attached.

Senator Wardner (mtr #1915) - Question for Jon regarding his feeling of current corporate tax structure.

Mr. Risch (mtr #1944) - Tax structure is one of many factors.

Senator Wardner (mtr #1986) - Question about Mr. Risch's feelings about the perception of a high corporate tax.

Mr. Risch - Feels tax process is relatively fair and balanced.

Senator Tollefson (mtr #2159) - Question regarding information in written testimony. Disagrees with parts of it.

Mr. Risch (mtr #2227) - No requirement in the bill to create jobs from corporate tax breaks

Senator Tollefson (mtr #2281) - More commercial activity would mean more jobs.

James Fetting, Branch Manager of the Kelly Services, (mtr #2324) - Testified in opposition of SB2314. Written testimony is attached

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 12, 2003

Jack McDonald, on behalf of ND Cable and ND Assoc of Schools (mtr #2552) - Concerned

about the bill as it is. Written testimony is attached. Concerned about the competitive advantage that other businesses would have.

Bob Lamp, representing the ND Implement Dealers Association (mtr #2810) - Testified in

opposition to the portion of the bill that repeals sales tax exemption for used farm machinery and changing sales tax amount on new farm machinery. Written testimony is attached.

Al Braaten, Farmer (mtr #3160) - Testified in opposition to the bill because it will shift tax to the farmer/producer.

Mark Sitz, ND Farmers Union (mtr #3275) - Testified in opposition to SB2314. Feel tax shift will hit producers.

Sandy Clark, ND Farm Bureau (mtr #3443) - Testified in opposition to SB2314. Do support economic development but stand in opposition to the shift of the tax burden to ag economy.

John Dwyer (mtr #3755) - Not in opposition to the bill, the amendment is very important.

Senator Urlacher closed the hearing on SB2314.

Tape 1, Side B

Senator Urlacher reopened the discussion on SB2314. All committee members are present.

Senator Wardner (mtr #4440) - Would like to have more time to study. Is a policy change so does not to Appropriations.

Senator Urlacher (mtr #4545) - Is in total agreement with Senator Wardner. Do we need clarification from the Tax Department.

Senator Seymour (mtr #4628) - Can a revenue scan be requested for comparison purposes?

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 12, 2003

Rick Clayburgh, State Tax Commissioner (mtr #4688) - Current fiscal note includes forecasts with current numbers. Bill is quite voluminous.

Senator Urlacher (mtr #4908) - If the fiscal note changes as we go forward, should we address?

Mr. Clayburgh (mtr #4975) - Specified how to move forward with fiscal note and amendments and projections.

General question and answer session followed.

Senator Nichols (mtr #5270) - Question regarding the example given of an average family.

Would like to know the major areas that the tax would shift to.

Mr. Clayburgh (mtr #5379) - Answer given on what the effect would be to that average family.

Senator Tollefson (mtr #5571) - Does the Tax Department coordinate with the Legislative Council.

Mr. Clayburgh (mtr #5600) - Most of the work on this bill done by Legislative Council. We looked at the bill and notified the sponsor that the wording needed to be changed. Gave additional detailed explanation of the bill, the wording and the intent. Bill has required a good deal of communication between departments. Requested a clarification from the Senators as to what information they wanted.

Senator Nichols (mtr #6038) - We heard a lot of about South Dakota. Can we get numbers on South Dakota as well.

Senator Urlacher (mtr #5) - Talked about the shifting of the tax burden.

Mr. Clayburgh (mtr #30) - Identified some of the areas in businesses that experienced the tax burden.

Senator Urlacher closed the discussion on SB2314.

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Senate Finance and Taxation Committee
Bill/Resolution Number SB2314
Hearing Date February 12, 2003

Tape 2, Side A

Senator Urlacher (mtr #3960) - Opened the discussion on this bill again. Question for the committee on how they prefer to proceed in order to gather information and make a decision on the bill.

Senator Tollefson (mtr #4100) - Had asked Mr. Clayburgh what kind of cooperation had been established between the Legislative Council and the Tax Department.

Senator Urlacher (mtr #4151) - Legislative Council and Tax Department have confidentiality requirements that need to be met as well. Would like a fact finding motion put into effect.

Senator Tollefson - Again questioned Mr. Clayburgh on the tax shift.

Rick Clayburgh, Tax Commissioner (mtr #4328) - Do not have that information at this time.

But will get information together for you prior to the weekend. It is possible to do "what if" scenarios. Gave information on the fiscal note, some background information and a wish list of exemptions.

General back and forth discussion involving all Senators and Mr. Clayburgh on how to proceed with this bill. Talked about what information the Senators need to make a decision and if the Tax Department could provide the needed information. Also talked about the exemptions, which ones would be left in and which exemptions would be taken out and if the Tax Department could estimate an impact on each item. Also talked about how South Dakota handles their tax situation and where else they get tax from besides sales tax and income tax.

Senator Urlacher (mtr #6070) - adjourned the meeting.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2314

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 17, 2003

Tape Number	Side A	Side B	Meter #
1	X		5800-end
2		X	1-5190
Committee Clerk Signature <i>Wendy [Signature]</i>			

Minutes:

Senator Urlacher opened the discussion on SB2314. All committee members are present. This bill relates to eliminating the individual and corporate state income taxes.

Senator Urlacher - Do we want information from the Tax Department? Feels it should go to a study resolution.

Senator Syverson (mtr #5996) - Referenced handout on the Argus Leader article.

Senator Urlacher (mtr #6228) - When comparing South Dakota, would like to know how South Dakota taxes break down.

Tape 1, Side B

Senator Seymour (mtr #30) - Feel South Dakota is not a good comparison. South Dakota has the lowest paid educators in the nation.

Senator Urlacher (mtr #90) - Received a letter from a car dealer that compared ND and SD in his business. ND came out better.

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10/22/03
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Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 17, 2003

Senator Syverson (mtr #136) - This bill could be considered revolutionary. May work better if it is blended in over several years. Related story of a business that look at ND and SD. Settled on SD because of the tax advantages.

Senator Urlacher (mtr #330) - It is difficult to answer to the constituency on how changes will effect them. People like the concept, but the reality is unknown.

Senator Seymour (mtr #410) - Pointed out that the committee has not heard from the economic development people regarding this bill.

Senator Wardner (mtr #479) - Agreed, economic development people have not been present. Feels they would be the first in line if this was important to them.

Senator Tollefson - Would like to have someone from economic development come to the committee.

Senator Urlacher - Time has entered into it quite heavily.

Senator Wardner (mtr #550) - the list of exemptions is contentious.

Senator Nichols (mtr #646) - When visiting with other states, our system is not so bad. Seems pretty fair. Referenced example of the couple given during earlier testimony. Is concerned about who will pick up the tax shift if this is to remain revenue neutral.

Senator Urlacher (mtr #956) - Concerned about the lack of information on the amount of tax eliminated for corporations also concerned about the lack of accurate of information.

Senator Syverson (mtr #1099) - Feels this concept is worthy of consideration. This bill is about the future.

Senator Urlacher (mtr #1650) - Feels the impact on farm machinery would be great. Feels it may force people to purchase out of state.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 17, 2003

Senator Syverson (mtr #1803) - Feels it is not easy to swim upstream in favor of a new concept.

Feels this bill could be successful for North Dakota. Is convinced that ND needs this bill.

Senator Urlacher (mtr #1963) - May be able to require a study with a two year time period.

Senator Tollefson (mtr #2020) - Concerned that the typical study is slowed or gets lost in the process. Can we turn to a study and phase out one portion.

Senator Nichols (mtr #2170) - A study dedicated to just a specific area may produce good results.

Senator Urlacher (mtr #2320) - Feels it is a strong concept and is good for the future.

Senator Syverson (mtr #2394) - We have not had the time needed for a bill of this significance.

Senator Tollefson (mtr #2524) - Mentioned again that the economic development people have been absent from this hearing. Feels a bill to force a study would work.

Senator Syverson (mtr #2657) - Questioned the format of the study and the process to initiate.

Rick Clayburgh, State Tax Commissioner (mtr #2855) - Gave several different scenarios that could be used to move forward with this bill.

Senator Syverson (mtr #2933) - Made a motion to direct an amendment to change line 1, to read a bill to study and report back to the 59th Legislative Session. 2nd by Senator Tollefson. Voice vote 6 yea, 0 nay.

General discussion followed between the Senators and Mr. Clayburgh on the intent of the study, the facts that the Senators would like to see in the study and a time line for the study. Also talked about the language needed in the study, debated the pros and cons of a broad or a restricted study.

Senator Urlacher - Adjourned the discussion.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2314

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 19, 2003

Tape Number	Side A	Side B	Meter #
1	X		31-4500
Committee Clerk Signature <i>Mary Kay Linder</i>			

Minutes:

Senator Urlacher opened the discussion on SB2314. All committee members are present. This bill relates to eliminating the individual and corporate income tax.

Senator Tollefson (mtr #66) - Presented proposed amendment .0306 and deferred explanation of the amendment to Senator Schobinger.

Senator Schobinger (mtr #95) - Introduced the proposed amendment and explain its impact on the bill.

Senator Urlacher (mtr #314) - Asked a question regarding the status of the existing exemptions.

Senator Schobinger (mtr #321) - Everything currently on sales tax base, will continue to be on sales tax base.

Senator Urlacher (mtr #372) - Questioned the relationship between corporate tax and income tax as a deduction.

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10/22/03

Date

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 19, 2003

Senator Schobinger (mtr #405) - Gave detailed explanation on how corporate income tax will be effected initially.

Senator Seymour (mtr #425) - Regarding a kickup of .25%. What is the strategy of that?

Senator Schobinger (mtr #450) - Depends on how corporations pay taxes. Will include a phase in period and a sunset clause.

Senator Wardner (mtr #550) - Clarified his understanding that the amendment would make the bill revenue neutral.

Senator Schobinger (mtr #557) - It is revenue neutral.

Senator Nichols (mtr #727) - If the 20% incremental decrease in corporate taxes continues, would sales tax need to be increased?

Senator Schobinger (mtr #755) - Disagreed. Feels sales tax may raise to much revenue. May need to decrease sales tax.

Senator Nichols (mtr #795) - Additional questions on how the difference in tax revenue will be made up.

Senator Schobinger (mtr #860) - Explained how additional tax from business would make up the difference.

Senator Urlacher (mtr #1030) - How complex will the administration of this bill be in regards to changes the retailers and tax department will have to make.

John Walstad, Legislative Council (mtr #1065) - Gave his opinion on the administration part of this bill may be handled with retailers and the tax department.

Senator Urlacher - Question regarding the timeline needed to make changes in order to comply.

Mr. Walstad - Not sure of the timeline needed for compliance.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 19, 2003

Senator Urlacher (mtr #1276) - Spoke about the bill.

Senator Syverson (mtr #1310) - Gave observations that the inconvenience to retailers may not be significant given other changes they are constantly making to their programs to accommodate sales etc. Feels we need to try something different for ND to provide job and pay benefits. Have to give this bill time and consideration.

Senator Tollefson (mtr #1619) - Believes this amendment as proposed will be accepted by the people in ND.

Senator Urlacher - Restated earlier concerns.

Senator Seymour (mtr #1809) - Expressed concern about consumers and the higher sales tax.

Senator Nichols (mtr #1850) - Once put into place, would be difficult to reverse the trend.

Senator Tollefson (mtr #2015) - If we want to study the issue before changing, it will never happen. May need to take a risk on putting forth this message.

Senator Urlacher (mtr #2125) - This could be tracked for a biennium.

Senator Tollefson - Disagreed. Feels it is not possible to get solid information on a future change.

Senator Wardner (mtr #2178) - Feels this amendment is better than the study resolution. Does believe that we need to do something with the corporate rate, wondered where the economic developers were during testimony.

Senator Tollefson (mtr #2590) - Moves to amend with .0306. 2nd by Senator Syverson.

Senator Syverson - Believes this bill is a tremendous opportunity.

Further comments on the bill by Senator Urlacher and Senator Wardner.

Roll call vote to amend SB2314 with .0306. 5 yea, 1 nay, 0 absent. Bill is amended.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2314

Hearing Date February 19, 2003

Senator Urlacher - Asked a question of Mr. Walstad on additional amendments.

John Walstad, Legislative Council (mtr #3100) - Reviewed language in the amendment that was adopted as well as the language in an amendment prepared for the committee. Difference in focus in the studies.

Senator Nichols (mtr #3236) - Can the adopted amendment be replaced?

Mr. Walstad - Again reviewed the difference in the language of the two amendments.

Senator Wardner (mtr #3406) - Initially thought the study was too restricted. But looked at it further, and is pretty flexible.

Senator Syverson (mtr #3542) - Clarified that Senator Wardner was proposing to amend the amendment.

Senator Wardner (mtr #3560) - Agreed. Would take out a section of the first amendment and replace. But is satisfied with the way it is.

Senator Syverson (mtr #3623) - Feels the current amendment section 7 is flexible enough.

Senator Wardner - Reviewed again the amendments and the scope of the study.

Senator Tollefson (mtr #3848) - Moves a Do Pass as Amended. 2nd by Senator Syverson.

Roll call vote 4 yea, 2 nay, 0 absent. Carrier is Senator Tollefson.

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10/22/03

FISCAL NOTE
Requested by Legislative Council
03/28/2003

Amendment to: SB 2314

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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$5,200,000)			
Expenditures						
Appropriations						

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

Engrossed SB 2314 with House Amendments reduces the corporation income tax 20% per year beginning with tax year 2004. This provision is expected to reduce state general fund revenues by an estimated \$13.7 million in the 2003-05 biennium. The bill also increases most sales tax rates by one-quarter percent, including the general sales and motor vehicle excise tax rates which are increased to 5.25% effective January 1, 2005. The combined impact of these sales tax provisions is an expected increase in state general fund revenues of \$8.5 million in the 2003-05 biennium. The net effect of engrossed SB 2314 with House Amendments is an expected reduction in state general fund revenues of \$5.2 million for the 2003-05 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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	03/28/2003

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FISCAL NOTE
Requested by Legislative Council
03/13/2003

REVISION

Amendment to: SB 2314

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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$1,400,000)			
Expenditures						
Appropriations						

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

This fiscal note is being revised to reflect the new March 2003 revenue forecast: Engrossed SB 2314 reduces the corporation income tax 20% per year beginning with tax year 2004. This provision is expected to reduce state general fund revenues by an estimated \$13.7 million in the 2003-05 biennium. The bill also increases most sales tax rates by one-quarter percent, including the general sales and motor vehicle excise tax rates which are increased to 5.25% effective January 1, 2005. The bill removes the compensation to retailers. The combined impact of these sales tax provisions is an expected increase in state general fund revenues of \$12.3 million in the 2003-05 biennium. The net effect of the entire engrossed SB 2314 is an expected reduction in state general fund revenues of \$1.4 million for the 2003-05 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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	03/18/2003

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FISCAL NOTE
Requested by Legislative Council
02/20/2003

Amendment to: SB 2314

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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenue			(\$1,100,000)			
Expenditures						
Appropriations						

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

Engrossed SB 2314 reduces the corporation income tax 20% per year beginning with tax year 2004. This provision is expected to reduce state general fund revenues by an estimated \$13.5 million in the 2003-05 biennium. The bill also increases most sales tax rates by one-quarter percent, including the general sales and motor vehicle excise tax rates which are increased to 5.25% effective January 1, 2005. The bill removes the compensation to retailers. The combined impact of these sales tax provisions is an expected increase in state general fund revenues of \$12.4 million in the 2003-05 biennium. The net effect of the entire engrossed SB 2314 is an expected reduction in state general fund revenues of \$1.1 million for the 2003-05 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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	02/21/2003

Dennis Hall
Operator's Signature

10/22/03
Date

FISCAL NOTE
Requested by Legislative Council
01/27/2003

Bill/Resolution No.: SB 2314

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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

The Tax Department is unable to compute the fiscal impact of the original version of SB 2314. We are uncertain which of a broad range of services are intended to become taxable in the 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.

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	02/11/2003

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Deanna Wells
Operator's Signature

10/22/03

Date

30346.0302
Title.

Prepared by the Legislative Council staff for
Senator Schobinger
February 12, 2003

PROPOSED AMENDMENTS TO SENATE BILL NO. 2314

Page 1, line 1, after "Act" insert "to create and enact a new section to chapter 57-39.2 of the North Dakota Century Code, relating to services exempt from sales and use taxes;"

Page 15, line 19, after "retailer" insert "the sale of coal mined in this state and used for heating buildings"

Page 17, line 14, remove "newspapers and"

Page 17, line 16, remove the overstrike over "newspapers nor"

Page 17, replace lines 20 through 22 with:

"10. "Services" means all activities engaged in for another person for a fee, retainer, commission, or other monetary charge, which activities involve predominantly the performance of a service as distinguished from a sale of tangible personal property. In determining what is a service, the intended use, principal objective, or ultimate objective of the contracting parties is not controlling. For purposes of this section, references to group, major group, and industry numbers incorporate applicable provisions of the standard industrial classification manual as prepared by the statistical policy division of the office of management and budget, office of the President. For purposes of this chapter, services rendered by an employee for that person's employer are not taxable services. "Services" includes engaging or continuing in the practice of any business in which a service is rendered. "Services" includes all of the following:

- a. Abstracters; accountants; architects; barbers; beauty shops; bill collection services; blacksmith shops; carwashing; drycleaning; dyeing; exterminators; garage and service stations; garment alteration; cleaning and pressing; insurance services not including policy premiums; janitorial services and supplies; specialty cleaners; laundry; linen and towel supply; membership or entrance fees for the use of a facility or for the right to purchase tangible personal property or services; photography; photograph developing and enlarging; tire recapping; travel agents; welding and all repair services; cable television; and rentals of tangible personal property except leases of tangible personal property between one telephone company and another telephone company.
- b. Rooming and boarding houses (group no. 702); camps and recreational vehicle parks (group no. 703); personal services (major group 72); business services (major group 73); automotive repair, services, and parking (major group 75); miscellaneous repair services (major group 76); amusement and recreation services (major group 79); legal services (major group 81); landscape and horticultural services (group no. 078); engineering, accounting, research, management, and related services (major group 87, except industry no. 8733); title abstract office (group no. 654); consumer credit

Page No. 1

30346.0302

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Deanna Hallen
Operator's Signature

10/22/03

Date

reporting agencies, mercantile reporting agencies, and adjustment and collection agencies (group no. 732); real estate agents and managers (group no. 653); funeral service and crematories (group no. 726), except that purchases of goods or services with money advanced as an accommodation are retail purchases and are not includable in gross receipts for funeral services and fees paid or donated for religious ceremonies are not includable in gross receipts for funeral services; loan brokers (industry no. 6163); repair shops and related services, not elsewhere classified (industry no. 7699) but only locksmiths and locksmith shops; floor laying and other floorwork not elsewhere classified (industry no. 1752); livestock slaughtering services; dog grooming services; airplane, helicopter, balloon, dirigible, and blimp rides for amusement or sightseeing; the collection and disposal of solid waste; appraisers services; and oil and gas field services.

- c. Local telephone services, toll telephone services, and teletypewriter services. The taxes imposed by this chapter on services taxable under this subdivision must be paid by the person paying for the services. If a bill is rendered the taxpayer for local telephone service or toll telephone service, the amount on which the tax with respect to such services are to be based must be the sum of all charges for such services included in the bill; except that if a person who renders the bill groups individual items for purposes of rendering the bill and computing the tax, then the amount on which the tax for each such group will be based shall be the sum of all items within that group, and the tax on the remaining items not included in any such group will be based on the charge for each item separately. If the tax imposed by this section with respect to toll telephone service is paid by inserting coins in coin-operated telephones, the tax must be computed to the nearest multiple of five cents, except that, if the tax is midway between multiples of five cents, the next higher multiple applies.
- d. Mobile telecommunications services, as defined in 4 U.S.C. 124(7) as of January 1, 2002, that originate and terminate in the same state and are billed to a customer with a place of primary use in this state. Notwithstanding any other provision of this chapter and for purposes of the tax imposed by this section, the tax imposed upon mobile telecommunications services must be administered in accordance with 4 U.S.C. 116-126 as in effect on July 28, 2000."

Page 19, line 3, after "3." Insert "There is imposed a tax of four percent upon the gross receipts of retailers from all sales at retail within this state of special fuel sold for use as heating fuel which is exempt from the tax imposed by section 57-43.2-02.

4."

Page 21, line 8, replace "coal" with "special fuel sold for use as heating fuel"

Page 22, replace lines 16 and 17 with:

"46. 11. Gross receipts from the sale of newspapers and newsprint and ink used in the publication of a newspaper."

Page No. 2

30346.0302

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Deanna Hall
Operator's Signature

10/22/03
Date

Page 22, line 18, replace "11." with "12."

Page 22, line 24, replace "12." with "13."

Page 23, line 4, replace "13." with "14."

Page 23, line 10, replace "14." with "15."

Page 23, line 12, replace "15." with "16."

Page 23, line 16, after "25." insert "17." and remove the overstrike over "~~Gross receipts from the sale of Bibles, hymnals, textbooks, and prayerbooks sold~~"

Page 23, remove the overstrike over line 17

Page 23, line 18, replace "16." with "18."

Page 24, line 19, replace "17." with "19."

Page 24, line 21, replace "18." with "20."

Page 25, line 1, after "24." insert "21." and remove the overstrike over "~~Gross receipts from the sale of money including all legal tender coin and~~"

Page 25, remove the overstrike over line 2

Page 25, line 24, replace "19." with "22."

Page 25, line 28, replace "20." with "23."

Page 26, line 5, replace "21." with "24."

Page 26, line 11, replace "22." with "25."

Page 26, line 14, after "44." insert "26." and remove the overstrike over "~~Gross receipts from the initial sale of beneficiated coal taxed under chapter 57-60.~~"

Page 26, line 22, after "44." insert "27." and remove the overstrike over "~~Gross receipts from all sales of coal used in agricultural processing or sugar beet~~"

Page 26, remove the overstrike over line 23

Page 26, after line 29, insert:

"SECTION 17. A new section to chapter 57-39.2 of the North Dakota Century Code is created and enacted as follows:

Exemptions from tax on services. For purposes of this section, references to group, major group, divisions, and industry members incorporate applicable provisions of the standard industrial classification manual as prepared by the statistical policy division of the office of management and budget, office of the President. There are

Page No. 3

30346.0302

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Deanna Waller
Operator's Signature

10/22/03
Date

specifically exempted from the provisions of this chapter and from computation of the amount of tax imposed by it the following services:

1. Membership organizations (major group 86).
2. Fair market value of any service given without charge to an institution, organization, or group exempt from the tax imposed by this chapter.
3. Sale of lottery tickets made as part of a lottery operated by this state.
4. Library copying charges.
5. Services to the purchaser or the purchaser's successor in interest of tangible personal property to fulfill a warranty obligation of the manufacturer to the extent that such services are not charged to the purchaser or the purchaser's successor in interest.
6. Engineering, architectural, and surveying services (group no. 871) rendered for a project entirely outside this state.
7. Transactions in which the use of the service occurs entirely outside this state. In instances of services performed on tangible personal property, use of the service occurs in this state if repair, refurbishment, adjustment, calibration, cleaning, maintenance, or other services are performed on tangible personal property in this state.
8. Fees or commissions received for rendering a service that provides for the sales of tangible personal property or services.
9. Credit services by credit bureaus to financial institutions.
10. Health services (major group 80); educational services (major group 82) except schools and educational services not elsewhere classified (industry no. 8299); social services (major group 83); agricultural services (major group 07) except veterinarian services (group no. 074) and animal specialty services, except veterinary (industry no. 0752); forestry services (group no. 085); radio and television broadcasting (group no. 483); railroad transportation (major group 40); local and suburban passenger transportation (group no. 411) except limousine services; schoolbuses (group no. 415); farm product warehousing and storage (industry no. 4221); establishments primarily engaged in transportation on rivers and canals (group no. 444); establishments primarily engaged in air transportation, certified carriers (group no. 451); establishments primarily engaged in air transportation, noncertified carriers (group no. 452) except chartered flights (industry no. 4522), and airplane, helicopter, balloon, dirigible, and blimp rides for amusement or sightseeing; pipelines except natural gas (major group 46); arrangement of passenger transportation (group no. 472); arrangement of transportation of freight and cargo (group no. 473); rental of railroad cars (group no. 474); water supply (industry no. 4941); sewerage systems (industry no. 4952); security brokers, dealers, and flotation companies (group no. 621); commodity contracts brokers and dealers (group no. 622); credit counseling services provided by individual and family social services (industry no. 8322); construction services (division C) except industry no. 1752 and locksmiths and locksmith shops; consumer credit reporting agencies, mercantile reporting agencies, adjustment and collection agencies (group no. 732), if the debt was incurred out of state and the client does not reside within the state; financial services of institutions subject to tax under chapter 57-35.3, including loan origination fees, late payment charges, nonsufficient fund check charges, stop payment charges, safe deposit box rent, exchange

charges, commission on travelers checks, charges for administration of trusts, interest charges, and points charged on loans; commissions earned or service fees paid by an insurance company to an agent or representative for the sale of a policy; services of dealers, agents, investment advisers, and investment adviser representatives required to be licensed under section 10-04-10; the sale of trading stamps; rentals of motor vehicles leased under a single contract for more than twenty-eight days; advertising services; services provided by any corporation to another corporation which is centrally assessed having identical ownership and services provided by any corporation to a wholly owned subsidiary which is centrally assessed; continuing education programs; tutoring; vocational counseling, except rehabilitation counseling; motion picture rentals to a commercially operated theater primarily engaged in the exhibition of motion pictures; and charges made by a telecommunications company for the origination, transmission, switching, reception, or termination of an interstate telephone or telegraph communication.

Page 30, line 30, replace "twenty-seven" with "twelve"

Page 33, line 29, after the third comma insert "and 'services'"

Page 35, line 10, remove "newspapers and"

Page 35, line 12, remove the overstrike over "newspapers nor"

Page 38, line 15, remove the overstrike over "An excise tax is imposed on the storage, use, or consumption in this state of"

Page 38, line 19, after "57-39.2-03.6" insert "special fuel sold for use as heating fuel and exempt from the tax imposed under section 57-43.2-02" and remove the overstrike over the overstruck period

Page 39, line 7, remove ", except coal."

Page 41, line 27, after "23." insert "11." and remove the overstrike over "Gross receipts from the initial sale of beneficiated coal."

Renumber accordingly

30346.0305
Title.

Prepared by the Legislative Council staff for
Senate Finance and Taxation
February 17, 2003

PROPOSED AMENDMENTS TO SENATE BILL NO. 2314

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act directing the legislative council to study the tax structure and balance in North Dakota to provide an equitable distribution of tax burdens and promote economic development."

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE COUNCIL TAX STRUCTURE AND BALANCE STUDY. The fifty-eighth legislative assembly considered legislation to eliminate state income taxes and expand the state sales tax to offset the revenue effects of the income tax elimination. The proposed legislation raised numerous issues for consideration, which require more detailed analysis. The legislative council shall study the tax structure and balance in North Dakota to provide for equitable distribution of tax burdens and to promote economic development and shall consider the need for phasing in any recommended changes. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly."

Renumber accordingly

Q3
2-17-03
104

PROPOSED AMENDMENTS TO SENATE BILL NO. 2314

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact sections 57-38-30, 57-39.2-02.1, 57-39.2-08.2, 57-40.2-02.1, and 57-40.3-02 of the North Dakota Century Code, relating to corporate income tax rates and sales, use, and motor vehicle excise tax rates; to repeal sections 57-39.2-12.1 and 57-40.2-07.1 of the North Dakota Century Code, relating to a deduction to reimburse retailers for administrative expenses of sales and use tax collection; to provide for a legislative council study; to provide an effective date; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-38-30 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30. Imposition and rate of tax on corporations. A tax is hereby imposed upon the taxable income of every domestic and foreign corporation received from the sources described in sections 57-38-12, 57-38-13, and 57-38-14, which must be levied, collected, and paid annually as in this chapter provided:

1.
 - a. For the first three thousand dollars of taxable income, at the rate of three percent.
 - b. On all taxable income above three thousand dollars and not in excess of eight thousand dollars, at the rate of four and one-half percent.
 - c. On all taxable income above eight thousand dollars and not in excess of twenty thousand dollars, at the rate of six percent.
 - d. On all taxable income above twenty thousand dollars, and not in excess of thirty thousand dollars, at the rate of seven and one-half percent.
 - e. On all taxable income above thirty thousand dollars, and not in excess of fifty thousand dollars, at the rate of nine percent.
 - f. On all taxable income above fifty thousand dollars, at the rate of ten and one-half percent.
2. A corporation that has paid North Dakota alternative minimum tax in years beginning before January 1, 1991, may carry over any alternative minimum tax credit remaining to the extent of the regular income tax liability of the corporation for a period not to exceed four taxable years.
3. Each of the tax rates in subsection 1 is reduced:
 - a. By twenty percent for the first taxable year beginning after December 31, 2003;
 - b. By forty percent for the second taxable year beginning after December 31, 2003;
 - c. By sixty percent for the third taxable year beginning after December 31, 2003;

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d. By eighty percent for the fourth taxable year beginning after December 31, 2003; and

e. To zero percent for taxable years beginning after December 31, 2007.

SECTION 2. AMENDMENT. Section 57-39.2-02.1 of the North Dakota Century Code is amended and reenacted as follows:

57-39.2-02.1. Sales tax imposed.

1. Except as otherwise expressly provided in subsection 2 for sales of mobile homes used for residential or business purposes, and except as otherwise expressly provided in this chapter, there is imposed a tax of five and one-fourth percent upon the gross receipts of retailers from all sales at retail including the leasing or renting of tangible personal property as provided in this section, within this state of the following to consumers or users:
 - a. Tangible personal property, consisting of goods, wares, or merchandise, except mobile homes used for residential or business purposes and new farm machinery and new irrigation equipment used exclusively for agricultural purposes.
 - b. The furnishing or service of communication services or steam other than steam used for processing agricultural products.
 - c. Tickets or admissions to places of amusement or entertainment or athletic events, including amounts charged for participation in an amusement, entertainment, or athletic activity, and including the furnishing of bingo cards and the playing of any machine for amusement or entertainment in response to the use of a coin. The tax imposed by this section applies only to eighty percent of the gross receipts collected from coin-operated amusement devices.
 - d. Magazines and other periodicals.
 - e. The leasing or renting of a hotel or motel room or tourist court accommodations.
 - f. The leasing or renting of tangible personal property the transfer of title to which has not been subjected to a retail sales tax under this chapter or a use tax under chapter 57-40.2.
 - g. Coal mined in this state and used for heating buildings, except for coal used in agricultural processing or sugar beet refining plants.
2. There is imposed a tax of three and one-fourth percent upon the gross receipts of retailers from all sales at retail of mobile homes used for residential or business purposes, except as provided in subsection 35 of section 57-39.2-04, and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes, including the leasing or renting of new farm machinery and new irrigation equipment used exclusively for agricultural purposes within this state to consumers or users.
3. In the case of a contract for the construction of highways, roads, streets, bridges, and buildings for which the bid was submitted prior to December 31, 1986, the contractor receiving the award is liable only for the sales or use tax at the rate of tax in effect on the date the bid was submitted.

3044

SECTION 3. AMENDMENT. Section 57-39.2-08.2 of the North Dakota Century Code is amended and reenacted as follows:

57-39.2-08.2. Sales tax to be added to purchase price and be a debt.

1. ~~Except as otherwise provided in subsection 2, retailers~~ A retailer shall add the tax imposed under this chapter, or the average equivalent thereof, to the sales price or charge, and when added, ~~such the tax constitutes is a~~ part of ~~such the~~ price or charge, is a debt from the consumer or user to the retailer until paid, and is recoverable at law in the same manner as other debts. In adding such tax to the price or charge, retailers shall adopt the following bracket system for the application of the tax:

\$0.01 through \$0.15	no tax
\$0.16 through \$0.20	1¢ tax
\$0.21 through \$0.40	2¢ tax
\$0.41 through \$0.60	3¢ tax
\$0.61 through \$0.80	4¢ tax
\$0.81 through \$1.00	5¢ tax

~~Each additional \$1.00—5¢ additional tax, or each additional 20¢ or fraction thereof over \$1.00—1¢ additional tax adopted by the commissioner by rule.~~

2. ~~On retail sales of mobile homes used for residential or business purposes, except as provided in subsection 35 of section 57-30.2-04, and of farm machinery, farm machinery repair parts, and irrigation equipment used exclusively for agricultural purposes, retailers shall add the tax imposed under this chapter, or the average equivalent thereof, to the sales price or charge, and when added, such tax constitutes a part of such price or charge, is a debt from the consumer or user to the retailer until paid, and is recoverable at law in the same manner as other debts. In adding such tax to the price or charge, retailers shall add to it three percent of such price or charge.~~

SECTION 4. AMENDMENT. Section 57-40.2-02.1 of the North Dakota Century Code is amended and reenacted as follows:

57-40.2-02.1. Use tax imposed.

1. Except as otherwise expressly provided in subsection 2 for purchases of mobile homes used for residential or business purposes, an excise tax is imposed on the storage, use, or consumption in this state of tangible personal property purchased at retail for storage, use, or consumption in this state, at the rate of five and one-fourth percent of the purchase price of the property. Except as limited by section 57-40.2-11, an excise tax is imposed on the storage, use, or consumption in this state of tangible personal property not originally purchased for storage, use, or consumption in this state at the rate of five and one-fourth percent of the fair market value of the property at the time it was brought into this state.
2. An excise tax is imposed on the storage, use, or consumption in this state of mobile homes used for residential or business purposes, except as provided in subsection 19 of section 57-40.2-04, and of new farm machinery and new irrigation equipment used exclusively for agricultural

4 of 4

purposes purchased at retail for storage, use, or consumption in this state at the rate of three and one-fourth percent of the purchase price thereof. Except as limited by section 57-40.2-11, and except as provided in subsection 35 of section 57-39.2-04, an excise tax is imposed on the storage, use, or consumption in this state of mobile homes used for residential or business purposes and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes not originally purchased for storage, use, or consumption in this state at the rate of three and one-fourth percent of the fair market value of mobile homes used for residential or business purposes and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes at the time it was brought into this state.

3. An excise tax is imposed on the storage, use, or consumption in this state of natural gas consumed by a final user at the rate of four percent from January 1, 1993, through December 31, 1993; three percent from January 1, 1994, through December 31, 1994; and two percent after December 31, 1994, if sales tax has not been applied as provided by section 57-39.2-03.6.
4. In the case of a contract awarded for the construction of highways, roads, streets, bridges, and buildings prior to December 1, 1986, the contractor receiving the award shall be liable only for the sales or use tax at the rate of tax in effect on the date of contract.

SECTION 5. AMENDMENT. Section 57-40.3-02 of the North Dakota Century Code is amended and reenacted as follows:

57-40.3-02. Tax imposed. There is hereby imposed an excise tax at the rate of five and one-fourth percent on the purchase price of any motor vehicle purchased or acquired either in or outside of the state of North Dakota for use on the streets and highways of this state and required to be registered under the laws of this state.

SECTION 6. REPEAL. Sections 57-39.2-12.1 and 57-40.2-07.1 of the North Dakota Century Code are repealed.

SECTION 7. LEGISLATIVE COUNCIL STUDY. The legislative council shall study state income and sales, use, and motor vehicle excise taxes to determine the feasibility and desirability of eliminating state individual and corporate income taxes and providing replacement revenues by expansion of state sales, use, and motor vehicle excise taxes. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly.

SECTION 8. EFFECTIVE DATE - EXPIRATION DATE. Section 1 of this Act is effective for taxable years beginning after December 31, 2003. Sections 2 through 5 of this Act are effective for taxable events occurring after December 31, 2004, and before July 1, 2005, and are thereafter ineffective. Section 6 of this Act is effective for taxable events occurring after June 30, 2003."

Renumber accordingly

Date:
Roll Call Vote #:

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2314

Senate	Finance and Taxation	Committee
--------	----------------------	-----------

☐ Check here for Conference Committee**Legislative Council Amendment Number**

Action Taken Reviewed with 103016

Motion Made By Sen. Patterson Seconded By Sen. Depress

[illegible]

Total (Yes) 5 No 1

Absent

Floor Assignment

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

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Operator's Signature

Date

2.19.03
7

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2314

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken No press is awarded

Motion Made By San. K. K. K. Seconded By San. K. K. K.

[illegible]

Total (Yes) 4 No 2

Absent _____

Floor Assignment Section 161650

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

Deanna Waller
Operator's signature

10/22/03
Date

REPORT OF STANDING COMMITTEE (410)
February 19, 2003 2:13 p.m.

Module No: SR-32-3308
Carrier: Tollefson
Insert LC: 30346.0308 Title: .0400

REPORT OF STANDING COMMITTEE

SB 2314: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2314 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact sections 57-38-30, 57-39.2-02.1, 57-39.2-08.2, 57-40.2-02.1, and 57-40.3-02 of the North Dakota Century Code, relating to corporate income tax rates and sales, use, and motor vehicle excise tax rates; to repeal sections 57-39.2-12.1 and 57-40.2-07.1 of the North Dakota Century Code, relating to a deduction to reimburse retailers for administrative expenses of sales and use tax collection; to provide for a legislative council study; to provide an effective date; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-38-30 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30. Imposition and rate of tax on corporations. A tax is hereby imposed upon the taxable income of every domestic and foreign corporation received from the sources described in sections 57-38-12, 57-38-13, and 57-38-14, which must be levied, collected, and paid annually as in this chapter provided:

1. a. For the first three thousand dollars of taxable income, at the rate of three percent.
- b. On all taxable income above three thousand dollars and not in excess of eight thousand dollars, at the rate of four and one-half percent.
- c. On all taxable income above eight thousand dollars and not in excess of twenty thousand dollars, at the rate of six percent.
- d. On all taxable income above twenty thousand dollars, and not in excess of thirty thousand dollars, at the rate of seven and one-half percent.
- e. On all taxable income above thirty thousand dollars, and not in excess of fifty thousand dollars, at the rate of nine percent.
- f. On all taxable income above fifty thousand dollars, at the rate of ten and one-half percent.
2. A corporation that has paid North Dakota alternative minimum tax in years beginning before January 1, 1991, may carry over any alternative minimum tax credit remaining to the extent of the regular income tax liability of the corporation for a period not to exceed four taxable years.
3. Each of the tax rates in subsection 1 is reduced:
 - a. By twenty percent for the first taxable year beginning after December 31, 2003:
 - b. By forty percent for the second taxable year beginning after December 31, 2003:

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- c. By sixty percent for the third taxable year beginning after December 31, 2003;
- d. By eighty percent for the fourth taxable year beginning after December 31, 2003; and
- e. To zero percent for taxable years beginning after December 31, 2007.

SECTION 2. AMENDMENT. Section 57-39.2-02.1 of the North Dakota Century Code is amended and reenacted as follows:

57-39.2-02.1. Sales tax Imposed.

1. Except as otherwise expressly provided in subsection 2 for sales of mobile homes used for residential or business purposes, and except as otherwise expressly provided in this chapter, there is imposed a tax of five and one-fourth percent upon the gross receipts of retailers from all sales at retail including the leasing or renting of tangible personal property as provided in this section, within this state of the following to consumers or users:
 - a. Tangible personal property, consisting of goods, wares, or merchandise, except mobile homes used for residential or business purposes and new farm machinery and new irrigation equipment used exclusively for agricultural purposes.
 - b. The furnishing or service of communication services or steam other than steam used for processing agricultural products.
 - c. Tickets or admissions to places of amusement or entertainment or athletic events, including amounts charged for participation in an amusement, entertainment, or athletic activity, and including the furnishing of bingo cards and the playing of any machine for amusement or entertainment in response to the use of a coin. The tax imposed by this section applies only to eighty percent of the gross receipts collected from coin-operated amusement devices.
 - d. Magazines and other periodicals.
 - e. The leasing or renting of a hotel or motel room or tourist court accommodations.
 - f. The leasing or renting of tangible personal property the transfer of title to which has not been subjected to a retail sales tax under this chapter or a use tax under chapter 57-40.2.
 - g. Coal mined in this state and used for heating buildings, except for coal used in agricultural processing or sugar beet refining plants.
2. There is imposed a tax of three and one-fourth percent upon the gross receipts of retailers from all sales at retail of mobile homes used for residential or business purposes, except as provided in subsection 35 of section 57-39.2-04, and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes, including the leasing or renting of new farm machinery and new irrigation equipment used

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exclusively for agricultural purposes within this state to consumers or users.

3. In the case of a contract for the construction of highways, roads, streets, bridges, and buildings for which the bid was submitted prior to December 9, 1986, the contractor receiving the award is liable only for the sales or use tax at the rate of tax in effect on the date the bid was submitted.

SECTION 3. AMENDMENT. Section 57-39.2-08.2 of the North Dakota Century Code is amended and reenacted as follows:

57-39.2-08.2. Sales tax to be added to purchase price and be a debt.

1. ~~Except as otherwise provided in subsection 2, retailers~~ A retailer shall add the tax imposed under this chapter, or the average equivalent thereof, to the sales price or charge, and when added, ~~such the tax constitutes~~ is a part of ~~such the price or charge~~, is a debt from the consumer or user to the retailer until paid, and is recoverable at law in the same manner as other debts. In adding such tax to the price or charge, retailers shall adopt the following bracket system for the application of the tax:

\$0.01 through \$0.15	no tax
\$0.16 through \$0.20	1¢ tax
\$0.21 through \$0.40	2¢ tax
\$0.41 through \$0.60	3¢ tax
\$0.61 through \$0.80	4¢ tax
\$0.81 through \$1.00	5¢ tax

~~Each additional \$1.00 5¢ additional tax, or each additional 20¢ or fraction thereof over \$1.00 1¢ additional tax adopted by the commissioner by rule.~~

2. ~~On retail sales of mobile homes used for residential or business purposes, except as provided in subsection 35 of section 57-39.2-04, and of farm machinery, farm machinery repair parts, and irrigation equipment used exclusively for agricultural purposes, retailers shall add the tax imposed under this chapter, or the average equivalent thereof, to the sales price or charge, and when added, such tax constitutes a part of such price or charge, is a debt from the consumer or user to the retailer until paid, and is recoverable at law in the same manner as other debts. In adding such tax to the price or charge, retailers shall add to it three percent of such price or charge.~~

SECTION 4. AMENDMENT. Section 57-40.2-02.1 of the North Dakota Century Code is amended and reenacted as follows:

57-40.2-02.1. Use tax imposed.

1. Except as otherwise expressly provided in subsection 2 for purchases of mobile homes used for residential or business purposes, an excise tax is imposed on the storage, use, or consumption in this state of tangible

personal property purchased at retail for storage, use, or consumption in this state, at the rate of five and one-fourth percent of the purchase price of the property. Except as limited by section 57-40.2-11, an excise tax is imposed on the storage, use, or consumption in this state of tangible personal property not originally purchased for storage, use, or consumption in this state at the rate of five and one-fourth percent of the fair market value of the property at the time it was brought into this state.

2. An excise tax is imposed on the storage, use, or consumption in this state of mobile homes used for residential or business purposes, except as provided in subsection 19 of section 57-40.2-04, and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes purchased at retail for storage, use, or consumption in this state at the rate of three and one-fourth percent of the purchase price thereof. Except as limited by section 57-40.2-11, and except as provided in subsection 35 of section 57-39.2-04, an excise tax is imposed on the storage, use, or consumption in this state of mobile homes used for residential or business purposes and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes not originally purchased for storage, use, or consumption in this state at the rate of three and one-fourth percent of the fair market value of mobile homes used for residential or business purposes and of new farm machinery and new irrigation equipment used exclusively for agricultural purposes at the time it was brought into this state.
3. An excise tax is imposed on the storage, use, or consumption in this state of natural gas consumed by a final user at the rate of four percent from January 1, 1993, through December 31, 1993; three percent from January 1, 1994, through December 31, 1994; and two percent after December 31, 1994, if sales tax has not been applied as provided by section 57-39.2-03.6.
4. In the case of a contract awarded for the construction of highways, roads, streets, bridges, and buildings prior to December 1, 1986, the contractor receiving the award shall be liable only for the sales or use tax at the rate of tax in effect on the date of contract.

SECTION 5. AMENDMENT. Section 57-40.3-02 of the North Dakota Century Code is amended and reenacted as follows:

57-40.3-02. Tax imposed. There is hereby imposed an excise tax at the rate of five and one-fourth percent on the purchase price of any motor vehicle purchased or acquired either in or outside of the state of North Dakota for use on the streets and highways of this state and required to be registered under the laws of this state.

SECTION 6. REPEAL. Sections 57-39.2-12.1 and 57-40.2-07.1 of the North Dakota Century Code are repealed.

SECTION 7. LEGISLATIVE COUNCIL STUDY. The legislative council shall study state income and sales, use, and motor vehicle excise taxes to determine the feasibility and desirability of eliminating state individual and corporate income taxes and providing replacement revenues by expansion of state sales, use, and motor vehicle excise taxes. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly.

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SECTION 8. EFFECTIVE DATE - EXPIRATION DATE. Section 1 of this Act is effective for taxable years beginning after December 31, 2003. Sections 2 through 5 of this Act are effective for taxable events occurring after December 31, 2004, and before July 1, 2005, and are thereafter ineffective. Section 6 of this Act is effective for taxable events occurring after June 30, 2003."

Renumber accordingly

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2003 HOUSE FINANCE AND TAXATION

SB 2314

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2314

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 12, 2003

Tape Number	Side A	Side B	Meter #
1	X		1

Committee Clerk Signature *Janice Stein*

Minutes:

REP. WES BELTER, CHAIRMAN Called the hearing to order.

SEN. RANDY SCHOBINGER, DIST. 3, Introduced the bill. See written testimony. Also submitted a news article entitled "Absence of taxes gives South Dakota an edge". See attached copy.

SEN. BEN TOLLEFSON, MINOT Co-sponsor of the bill. He stated he lived in North Dakota his entire life and worked for a corporation in North Dakota for over 32 years. That corporation stayed in North Dakota because it was a good business environment for them. Included in that job I had, was an opportunity for me to raise a family, to live here and retire here in a reasonable fashion. This bill can give reason to stay for a lot of young people, that today may be thinking of going elsewhere. Gave an overview of what people thought about the bill on the Senate side. He felt that 500 young people who leave each year, may decide to stay with this bill.

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SEN. TONY GRINDBERG, DIST. 41 Testified in support of the bill as one of the

co-sponsors. Stated he would give a lot of the same comments which he gave in the Senate.

There is a lot of discussion about out-migration, and saving North Dakota, young people leaving the state, etc., how do we protect the future five or ten years down the road. When you look at the states with no personal income tax, they have significant population growth. South Dakota is one of them, Florida, Texas. One of the things which intrigues me, is that two of the states with the biggest population increase of retired folks, one was Florida, and the other is Pennsylvania.

Pennsylvania does not tax income off of pension funds. As the baby boom population moves into retirement in our state, sooner or later the stock market will come back, and the baby boomers will have an incredible amount of wealth. I think we need to look at a long term tax.

The first six weeks of the session, I had considerable discussion with people I represent in my district, I didn't come across anybody who was opposed to SB 2314. He talked about auction sales, whereby equipment is being auctioned off, tax free.

REP. WINRICH You spoke of your experience in economic development, in the brief experience I had, after the flood in Grand forks, I found that one of the main concerns of many businesses was not so much the corporate income tax, but the property taxes. In the red book comparison with other states, North Dakota's property taxes seem to rank higher than other states, isn't that more of disincentive for business then the corporation income tax?

SEN. GRINDBERG In my experience, property taxes are competitive in other states.

Corporate income tax repeal will not change things overnight. In the work I have done, I think I have been involved with one corporate income tax exemption request.

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REP. SCHMIDT Stated he had to respond because he mentioned auctioneers. When we sell a farmer out, there is no tax on the machinery, but in a lot of instances, that farmer pays thirty three percent income tax on goods sold. I would hope, right now we don't have tax on machinery, at a dealer or at an auction, and I hope we don't change that.

REP. KELSH Have you given any thought to what would happen to a renaissance zone, the incentives that we give, should this pass?

SEN. GRINDBERG It certainly would create a lot of new approaches. I think the long term benefit of not having personal corporate income tax, would far outweigh the fifty percent tax credit to the renaissance zone fund. In a perfect world, if the fund was returning an investment to the investors, they would put money in whether they got a tax credit or not.

REP. RON IVERSON, FARGO Testified in support of the bill. We talk a lot about saving North Dakota and keeping youth here and giving incentives, related to an article entitled "Absence of Taxes in South Dakota."

BILL BUTCHER, STATE DIRECTOR OF THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS Testified in support of the bill. He stated the NFIB represents approximately 3000 small business owners. On all of the positions taken by NFIB on issues before the legislature, are determined by member ballots. We do not take a position unless at least sixty percent of our members are in favor of it, or close to it. In early February, we balloted our numbers on SB 2314, in concept, we didn't talk specifically about the bill, the result of our member poll, with sixty two percent of our members, were in favor of elimination of all income taxes in North Dakota, and reliance instead on extended sales tax revenues. He stated he was in communication with the state director of NFIB in South Dakota, and the articles and references

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made by Rep. Iverson were confirmed by him, and he said it was one of the best things that happened to South Dakota, especially for small businesses.

REP. WINRICH Did you poll your members about the repeal of the collection allowance for sales tax?

BILL BUTCHER No, I did not. The poll had to do with the expansion of sales tax to replace revenues.

REP. WINRICH My understanding that many of the retailers across the state, are rather adamantly opposed to that.

BILL BUTCHER Thirty one of our members were opposed to it. Our membership includes a lot of small businesses who are not retailers, and I can only report that the majority of sixty two members were in favor of it.

REP. BELTER TO SEN. SCHOBINGER At the end of the five years when the tax is totally repealed, won't we end up with a short fall then?

SEN. SCHOBINGER This will allow for, every two years we budget, and it phases out over five years, but we obviously can't tie the next legislature into that. Section 7, is the resolution which will study this whole thing and that committee is assigned to come back with recommendations to the next legislative assembly. We will have a governor's budget, and he writes many things into, or takes things out of the budget, that will allow this governor, as you know, when we left here two years ago, we were projecting 104 million dollars off the corporate income tax, that tax is now down to twenty one million dollars from what we were projecting two years ago. The governor had to write that cut into his budget, also the personal income tax is down from sixty million dollars. That is no different from two years from now, or four years

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from now, the governor will take that into account. The impetus behind this, is increased economic development.

REP. WINRICH Wouldn't it be more logical to do the study before you start making changes?

SEN. SCHOBINGER We did study the corporate income tax this whole last biennium interim. It was a very comprehensive study on all aspects of the corporate income tax.

REP. WINRICH does your bill come out of that study?

SEN. SCHOBINGER My bill is a separate bill. The bill that came out of the study was actually introduced in committee, given the budget status at that time, to make the corporate income tax flat, although it was a bill introduced through the Senate from the interim finance and tax committee.

REP. WINRICH The study here says that we are going to study state income, sales & use and motor vehicle excise tax to determine the feasibility and desirability of eliminating state individual and corporate income taxes and providing replacement revenue by expansion of the state sales use and motor vehicle taxes. But your bill already envisions the elimination of the corporate income tax, over a five year period, and an expansion of the sales tax?

SEN. SCHOBINGER No, there is no expansion of the sales tax. Those taxes will be on the existing sales tax base, and it will go from five to five and a quarter, for the final six months of the biennium.

REP. WINRICH Doesn't that presuppose the conclusions of the study? What if the study concludes that we shouldn't eliminate the corporate sales tax?

SEN. SCHOBINGER The study ties the whole thing together. Last biennium, we studied the corporate income tax, so we have pretty in depth knowledge as to what that is. The testimony

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we received from South Dakota, is them not having a corporate income tax, is very much a positive for them. They are out talking to speculative businesses that are expanding, it is one of their tools. On their Department of Commerce website, that is the first thing they mention. Also during that study, I received a brief letter from Dr. Milton Friedman, on July 2, in addition, any individual state which terminates a tax on corporate income, will be an attractive place for corporations to make their home. By eliminating the tax on corporate income, the state of North Dakota could attract an in flow of capital from the rest of the country. When I take a look at that, I think it is exciting. That is something North Dakota needs.

REP. WINRICH You keep referring to the past study that was done this past biennium, did that study of corporate income tax develop any projections of how the increase of economic activity would take place, what sort of numbers are we looking at?

SEN. SCHOBINGER Those are the types of numbers that are very difficult to track. But those are numbers that will be realized.

REP. WINRICH What numbers?

SEN. SCHOBINGER The increased standard of living for all North Dakotans, I think it will bear itself out.

REP. WINRICH That is not a number.

SEN. SCHOBINGER We know, we are losing 500 people per month. I believe, there are two reasons young people are leaving North Dakota, 1. Not enough high paying jobs, 2. They are getting their college degrees and can't find jobs.

REP. HEADLAND Is this bill inclusive of all types of corporations in North Dakota, as you know, as a farmer today, I can incorporate my farm, would I be subject to this bill?

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SEN. SCHOBINGER This bill will include all businesses organized as C Corporations.

It may include Black & Decker, Gateway, Intel, it may include a whole lot of corporations that currently are not here.

REP. BELTER You have taken the fee away from businesses for collecting the sales tax, on the house side, we already defeated one attempt to do that, mainly because we felt it was an anti-business move, was there any thought to reinstating that, and maybe starting your sales tax at an earlier time to cover that loss?

SEN. SCHOBINGER I think the critical element of this bill is to begin to phase out the corporate income tax, how that is accomplished, I want to find the best way to do that. I do understand those retailers that have a large number of gross sales, currently, over the long run, will realize this is a positive move.

REP. KELSH We heard yesterday, there are several states that don't have a sales tax, Montana is one of them, yet, they experience a large amount of growth if not larger than South Dakota, have you given any thought to the elimination of the sales tax?

SEN. SCHOBINGER That is a good question. Montana is very heavily weighted in the west, when you drive out to Glendive or Sidney, you know exactly what the economic development is there. That is why I think the differences in sales tax don't necessarily cause people to flee as we originally may have thought. If that were the case, we would see much migration from Dickinson and Williston over the borders, and the retail outlets would be lined up along the border of North Dakota and Montana. That has not happened. I am not a great fan of the sales tax, but I think people enjoy paying their taxes and getting something for it, rather than having it taken off the top.

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REP. MERLE BOUCHER, DIST. 9, ROLETTE. Testified in opposition of the bill.

He stated he has heard the argument that if we make this change and eliminate the corporate income tax and pass the responsibility or make up the gap in what we would lose in corporate income taxes by assessing an additional amount on the sales tax, this is how we would recover those lost monies, and it would also be a revenue neutral act. It might be a revenue neutral act as far as the government and the treasury of the state of North Dakota is concerned, but it is not going to be a revenue neutral situation for those people who are consumers and taxpayers across the state of North Dakota. That tax responsibility is going to be shifted to someone else. Some people say elimination of the corporate income tax will create economic development in the state of North Dakota, I disagree with that for a number of reasons. 1. When I talk to people in the economic development community, be they community based or regional based, or here within state government, they will always tell me consistently, that when businesses come to North Dakota and research the possibility of coming to this state, that the consideration of the state's tax structure is an item way down on the list of them making their determination. There are many other factors that weigh in more heavily than the tax structure of North Dakota, when they make that decision to come to a community. When they come to a community, they look at the infrastructure of the community and the labor force that is available. 2. They will always tell you that we also have other options in terms of taxes and taxation. We have sales tax exemptions, property tax exemptions, we have many of those kinds of opportunities that are available to the communities. It becomes a matter of local decision making. When we take a look at the corporations that do business in the state of North Dakota, many of those corporations are retail and service provider corporations. When they make a determination or decision to

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locate in North Dakota or to expand business, it is a market driven decision. Take a look at the tax structure of North Dakota. We know taxes statewide, are built on a three legged stool. Property tax, sales tax and income tax, on the income tax side, it is corporate and personal income tax. On the sales tax side, it is state sales tax, and local sales tax, and food and lodging tax. On the other side of the stool is property tax, which finances our schools, counties and other municipal operations. When we talk about tax collections in North Dakota, property tax collections are significantly higher than the other two. We have an inequity, that we need to address. He went on to talk about the different sales taxes collected in the communities across the state of North Dakota. Also commented on the income taxes paid in our state. When we talk about this tax system, the debate should be focused around the inequities that exist within the system. Minnesota is a high tax rate, and they have good solid economic growth. South Dakota has a low tax rate, and obviously, they have outgrown North Dakota. If you compare the two, is tax really the issue, or business environment throughout the state. I think we should put our energy forward in looking at the business climate to attract people here.

REP. BELTER From your testimony, I gather that you feel our sales tax is high enough?

REP. BOUCHER I would say our sales tax has reached a point where the people out there are saying, we pay our taxes as loyal and responsible citizens because we know we have to have money to operate the state, local and municipal governments, but at the same time, I think when they say five percent, one percent, which is typical, I think most of us realize we pay about a six percent sales tax rate.

REP. BELTER Do you think our sales tax is high enough that we might not want to pass the one percent lodging tax?

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REP. BOUCHER I think, quite frankly, the people in North Dakota look at sales tax, and they are saying we have probably reached the point of maxing out our sales taxes.

REP. IVERSON I look at the numbers between North Dakota and South Dakota and they don't lie. They don't have corporate income tax, they don't have state income tax, and yet, they grow, and North Dakota does not. You talked about this three legged stool, they don't have the three legged stool, they do have some gambling revenue, but they aggressively market themselves as a low taxation state, how can you refute that?

REP. BOUCHER Look across the river to Minnesota, which is next door to both North Dakota and South Dakota, and they are a high tax state, has that stopped their growth? In the state of South Dakota, when you take a look at the growth they claimed to have made, are those jobs high power jobs. We can talk about numbers and we can spin any numbers you want, depending upon the case or argument you want to make, if we talk about North Dakota and South Dakota tax climates, what are they paying for license fees and those kinds of things. You have to put everything into perspective. The state of South Dakota needs money to spend just like the state of North Dakota, it is just a matter of where you are going to tap it.

REP. IVERSON They have less state employees than we do, they have a lot of other things that we don't. But to respond to your question about Minnesota, they have a five billion, or whatever, deficit now, and the business climate is not going to be more attractive, you are not going to see a lot of growth, states like South Dakota, will attract those businesses. How can you refute the numbers when they grow, they have almost one hundred twenty thousand more people than we do, and the states are essentially the same.

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REP. BOUCHER The state of Minnesota has way more people than the state of South Dakota does. The state of South Dakota better have the infrastructure in place to attract those people, and they better have the water, transportation, facilities as well as the technology capabilities to attract those people. If that doesn't exist, they won't go there. Minnesota is going to have a definite advantage over both of us because they have the population. The state of Minnesota is in a real budget crunch right now because they rebated a lot of tax money when they had tax money in their treasury.

REP. WEILER You made a comment that the business environment and the climate needs to improve in North Dakota to help all of North Dakota, do you not believe that zero corporate income tax will improve that very same business environment?

REP. BOUCHER That is a debatable point. In my discussion with economic development people, be they in state, county or regional government, they say that the companies and businesses, when they ask them what they need to locate here, taxes are way down on the list. We would be offering corporations who are in the retail or service provider sector, and their growth and presence here is based totally based on market. If the people aren't here, they are not going to add jobs, if we see a decrease in sales, they will probably shut down the operation and leave. They don't even own the buildings they operate out of. North Dakotans own the buildings and pay the property taxes.

MICHAEL J. WALSH. OWNER - OPERATOR OF KING KOIN LAUNDERETTE & CAR WASH Testified in opposition of the bill. See written testimony plus a chart showing that states with little or no sales tax, have less out migration than the highly regressive South Dakota.

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REP. CLARK You talk about the quality of life issues as being more important, in North Dakota we have a low crime rate, and the out migration is still continuing, you think it is working?

MICHAEL WALSH I am saying there are other factors for the out migration, and I am saying, if we do change the taxes, I think the crime could get worse. I don't think the model of South Dakota is ideal, as was pointed out, they are spending way less per capita, and it is very significant, so we are looking at the wrong part of the model, of South Dakota.

JOHN RISCH. UNITED TRANSPORTATION UNION. Testified in opposition of the bill. See written testimony. Also submitted a handout relating to the average annual pay for 2000 and 2001 and percent change. See attached copy.

REP. DROYDAL Do you poll your membership before you come and take a stand, and what was your percentage of support or non support?

JOHN RISCH We have not polled our membership. I didn't mean to belittle. We pass general resolutions concerning issues as far as tax policy and things at our local meetings, or at our state legislative board meetings on positions we will take. We don't poll our entire membership.

REP. CLARK You mentioned that you think it would probably be bigger problems if we eliminated corporate income tax because all of the pass through limited partnerships would pass through the business profits through individuals to be taxed at their personal income tax rate, don't you feel that because of the incorporated status, they would start paying income tax on that, then when they pay themselves, they still pay state income tax, and personally, federal income tax, that would increase the taxable liability?

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House Finance and Taxation Committee
Bill/Resolution Number SB 2314
Hearing Date March 12, 2003

JOHN RISCH Each individual entity will have to do their numbers, the intent will be to get yourself in the top rate of 5.54% or zero percent as North Dakota would have, for the corporate entity. My suggestion is, as people look at this, as I personally look at this, I have rental property, this would be an opportunity for me to reduce my amount of personal income tax. There could be a situation where it is a greater liability, I don't know, companies will have to weigh that out.

**CHRIS RUNGE, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA PUBLIC
EMPLOYEES ASSOCIATION AND SECRETARY-TREASURER OF THE NORTH**

DAKOTA AFLCIO Testified in opposition of the bill. Stated she does a lot of work in economic development and jobs and research, and she stated she came across an article, recently, with the new Toyota plant going into San Antonio, Texas, San Antonio was fifth on the list of the states that were vying for the new Toyota plant, but Toyota picked San Antonio, and it had the least amount of incentives over Tennessee, Arkansas and Mississippi. What the Toyota president said, if you pull too many incentives out of the community in the beginning, you pay the price down the road, it is a penny wise, pound foolish thing to do. We believe it is in our best business to be a good corporate citizen and contribute to the community right away. I think taking the corporate income tax out of the mix of taxes in North Dakota, is not going to be good for the people infrastructure of the state of North Dakota, especially in these tight economic times.

RANDY HELLMAN, LOCAL BUSINESS OWNER, BISMARCK Testified in opposition of one section of the bill, which is Section 6.

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DAVID KEMNITZ, PRESIDENT OF THE AFLCIO Testified in opposition of the bill.

Almost always, our resolutions from our conventions in speaking to the history of taxes, proper government services, and the future, statistics show that North Dakota's average wage compared to the nation is at 70% of the national average. In 1985, it was around 84%. Obviously the power plants, gas plants and other large construction was helping keep it up. In 1990, it was a low of 70%. In 1991, the legislature passed legislation that called for a living wage provision, the average wage started to go up. In 1995, that was repealed, and it has gone down now. We think we are looking at the wrong picture. The corporate income tax rate has been frozen since 1984. The income tax and property tax waiver for new and expanding businesses in the state were for good jobs and good wages. Low interest loans were for good jobs and good wages. Infrastructure gifting is all for good jobs and good wages. We haven't seen any of those. Our members don't see the results of gifting or giveaway of the corporate business sector taxes. Personal income taxes have changed for the wage earner. Sales tax have increased, food and lodging. Local and state sales tax has increased. Property taxes have increased for all of us. Fees for licenses have increased.

BOB LAMP, ON BEHALF OF THE AUTOMOBILE DEALERS ASSOCIATION OF NORTH DAKOTA AND THE NORTH DAKOTA IMPLEMENT DEALERS ASSOCIATION. Testified in opposition of the bill. See written testimony.

PATTY LEWIS, REPRESENTING THE NORTH DAKOTA HOSPITALITY ASSOCIATION Testified in opposition of the bill. Agreed to what Mr. Hellman stated, regarding Section 6 of the bill.

With no further testimony, the hearing was closed.

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House Finance and Taxation Committee
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RICK CLAYBURGH, STATE TAX COMMISSIONER Appeared late after the hearing was closed. Rep. Belter requested that the tax commissioner submit written testimony to committee members.

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2314

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 25, 2003

Tape Number	Side A	Side B	Meter #
1	X		12.6
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

COMMITTEE ACTION

REP. WEILER Presented amendments to the committee.

REP. WEILER Made a motion to adopt the amendments as presented.

REP. DROVDAL Second the motion. Motion carried by voice vote.

REP. IVERSON Made a motion to turn this bill into a study to be studied during the interim.

REP. CLARK Second the motion. Motion failed.

Committee members felt that this was studied during the last interim and did not need to be studied again.

REP. WINRICH Made a motion for a **DO NOT PASS AS AMENDED**.

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Page 2
House Finance and Taxation Committee
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REP. SCHMIDT Second the motion. **MOTION CARRIED**

9 YES 4 NO 1 ABSENT

REP. GROSZ Was given the floor assignment.

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10/22/03
Date

Date: **3-25-03**
Roll Call Vote #: **1**

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. **SB 2314**

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 30346.0401

Action Taken Do Not Pass as amended

Motion Made By Rep. Winrich Seconded By Rep. Schmidt

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN	✓				
DROVDAL, VICE-CHAIR		✓			
CLARK		✓			
FROELICH	A				
GROSZ	✓				
HEADLAND	✓				
IVERSON		✓			
KELSH	✓				
KLEIN	✓				
NICHOLAS	✓				
SCHMIDT	✓				
WEILER		✓			
WIKENHEISER	✓				
WINRICH	✓				

Total (Yes) 9 No 4

Absent 1

Floor Assignment Rep. Grosz

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

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Deanna Waller 10/22/03
Operator's Signature Date

REPORT OF STANDING COMMITTEE (410)
March 26, 2003 8:34 a.m.

Module No: HR-54-5771
Carrier: Grosz
Insert LC: 30346.0401 Title: .0500

REPORT OF STANDING COMMITTEE

SB 2314, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO NOT PASS (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2314 was placed on the Sixth order on the calendar.

Page 1, line 3, remove "to repeal sections 57-39.2-12.1"

Page 1, remove line 4

Page 1, line 5, remove "retailers for administrative expenses of sales and use tax collection;"

Page 6, remove lines 3 and 4

Page 6, line 14, remove "Section 6 of this Act is effective for taxable events occurring after"

Page 6, remove line 15

Renumber accordingly

(2) DESK, (3) COMM

Page No. 1

HR-54-5771

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2003 TESTIMONY

SB 2314

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Deanne Walcott
Operator's Signature

10/22/03

Date

Testimony to the Senate Finance and Tax Committee

By: Senator Randy Schobinger

Wednesday - February 12th, 9:30 AM

Lewis & Clark Room - State Capitol

My State, OUR STATE is at a crossroads. The decisions we are making this session about which road we take will define our state for the next generation. The decisions aren't just economic. They are much more than that. What we do this legislative session will significantly impact whether we grow or wither in the coming years.

We all know and agree that the direction we have been heading isn't taking us where we want to go. Our youth are leaving. Our population is departing at the rate of 500 per month. That rate is accelerating.

I've been encouraged by the enthusiasm, and the serious questions SB 2314 has generated among you - my colleagues. Those I've talked with about this bill have encouraged me to move it forward. Together we can change the direction our state is headed. We can change the direction in a positive and progressive way. By passing SB 2314 we will show those who have elected us that we are willing and able to lead our state down a new, more prosperous road.

SB 2314, as amended, will eliminate both the individual and corporate income tax saving taxpayers approximately \$520,000,000 each biennium. It will increase the sales tax from 5% to 6% and include tax on some item not currently taxed. However -- food, ag inputs, health services, and medical products including prescription drugs remain exempt.

If we continue down the road we have been on by next session our state will have between 12,000 and 20,000 fewer people. The majority of those leaving will be families and young adults. We MUST reverse this AND we must begin now.

The statistics tell a chilling story. All but four North Dakota counties will lose population over the next 20 years. The small business survival index ranks North Dakota 35th least attractive state in the nation to do business. Four independent analysts give North Dakota a C+ while South Dakota receives an A. SD always ranks in the top 5 while ND is in the bottom 10 in virtually every analysis ranking states as friendly or unfriendly to business.

In "Taxes and Economic Growth", a publication by renowned economist Dr. Richard Vedder, while reporting most neighboring states rank close in terms of "business friendliness" he notes the dramatic contrast between North and South Dakota. While South Dakota receives an "A" grade we get a "C+". If you were picking a place to do business, which would you, pick?

The road I wish our state to travel is one that will enable us to utilize the abundant natural resources our state has been blessed with. It is the road that will provide opportunities for our families and our children.

SB 2314 will NOT, by itself, turn our state away from the precipice we're heading toward. However, SB 2314 will accomplish TWO necessary things

FIRST, it will prove that we can **CHANGE** direction and that change isn't as frightening as some think and,

SECOND, it will lay a solid foundation that will make our state attractive to business, industry and the jobs they bring.

Today there are far too few representatives from primary industry or large business entities here to testify. There is a reason for this. Our state has all too few primary industries or large businesses. This is because our state's tax code, our rules, our regulations and unfortunately a certain mind set makes our state hostile to business and newcomers.

It is time we acknowledge this reality. We cannot afford to put off admitting the truth -
- IF we want to change the direction we are traveling. I want to change direction. The majority of those I know also want move in a different direction. Today YOU can take the first step to make this change a reality - you can do so by giving SB 2314 a DO PASS recommendation.

I understand CHANGE is frightening for some. It is particularly frightening for those comfortable with the status quo. Unfortunately that is a "comfort" we can no longer afford.

SB 2314 will change North Dakota's tax law. Let me explain what SB 2314 is and isn't and what SB 2314 will and will NOT do.

- SB 2314 is a beacon that will loudly and clearly tell industry North Dakota is serious when we say we want it here.
- SB 2314 will provide tens of millions of dollars in positive and needed free publicity for our state.
- SB 2314 is not regressive. It is progressive. It is an absolutely necessary step to stem the out migration of jobs and people from our state.
- SB 2314 will put more than \$420,000,000 back in the pockets of North Dakota families to spend as they see fit.
- SB 2314 will make our state among the most job friendly in the nation.
- SB 2314 will eliminate more than 150 pages of tax code and the machinery needed to collect the income tax.
- SB 2314 is the first step we must take to begin the task of transforming our state from a hostile environment for business and industry to a destination of choice for business and industry.

Our state is changing whether we like it or not. SB 2314 is a major change. But it is a positive change. It allows taxpayers to keep more of what they earn AND at the same

time tells business and industry North Dakota sees it as a valued citizen not simply another pocket to tax.

Our choice is really quite simple. North Dakota can continue on a downhill road and disappear into the bottom of the gorge. OR we can change direction and head down a different road – a road we chose, a road that provides our citizens opportunities – particularly the opportunity to stay and work here in North Dakota.

SB 2314 will make those opportunities reality. SB 2314 will take us in a new, a better, a positive and an exciting direction. We must, however, realize that SB 2314 is just the first step. But, it is a critical first step because it sets us on the new course. As we head down this new road it will become evident what other changes we need to make and will want to make.

SB 2314 did not come about overnight. My degree is in economics. I've spent the last two years studying the economic problems facing our state. I've engaged the thinking and advice of dozens of experts in the area of economic development. SB 2314 is the culmination of that effort. Together with that effort the Legislative Council and the Tax Department has helped develop what is being presented today – SB 2314.

Thank you. I now urge you to take the drivers wheel and turn North Dakota in a new direction by giving SB 2314 a DO PASS recommendation.

02/06/2003 12:41 FAX 7012216854

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Wall Street Journal 2-5-03

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Dennis Waller
Operator's Signature

10/22/03
Date

Table 2
Four Different Evaluations of Fiscal Policy By State

State	SBSC	ALEC	Bloomberg	Vedder	Median
Alabama	B+	B	B+	B+	B+
Alaska	B-	F	A	C	C+
Arizona	C+	B	B	C	B-
Arkansas	C+	C	C	C	C
California	D-	C-	C-	C-	C-
Colorado	B	B	B	B	B
Connecticut	C-	D	C-	F	D+
Delaware	C	F	B	F	D
Florida	A-	A	A	A-	A
Georgia	C	D	C	B-	C
Hawaii	F	F	C	D	D+
Idaho	C	C	C-	C-	C
Illinois	B-	C-	C	B-	C+
Indiana	C+	C-	B-	C+	C+
Iowa	D	C-	C	C+	C
Kansas	F	C-	C-	D	D+
Kentucky	C-	D	C	D+	C-
Louisiana	C+	C	A-	B	B-
Maine	F	D	D	F	D-
Maryland	C	B	C+	C-	C+
Massachusetts	C	F	C	D	C-
Michigan	B	A	C+	C	B-
Minnesota	F	D	D+	F	D-
Mississippi	B	C-	C+	C+	C+
Missouri	C+	B	C+	C+	C+
Montana	D+	C+	D-	C	C-
Nebraska	C-	B	D+	C	C
Nevada	A	A	A	A-	A
New Hampshire	B+	A	B	B+	B+
New Jersey	D+	B	C	C-	C
New Mexico	D-	F	C+	C	D+
New York	D-	C+	D	D-	D
North Carolina	C-	D	C-	C	C-
North Dakota	C	C+	B-	D	C+
Ohio	D	C-	C	C-	C-
Oklahoma	C	C-	C	C+	C
Oregon	D+	C+	D+	B	C
Pennsylvania	C	C+	C+	C+	C+
Rhode Island	F	D	F	D+	D-
South Carolina	C+	C	C	B	C
South Dakota	A	A	A	A	A
Tennessee	B	B	A+	A	A-
Texas	B+	B	B	A	B+
Utah	C-	D	B-	D+	C-
Vermont	D	C+	D+	D-	D+
Virginia	B-	C+	C+	B	B-
Washington	A	C+	A	C	B
West Virginia	D	D	C+	C+	C-
Wisconsin	C	D	D	F	D
Wyoming	A	B	A+	C	A-

SOURCE: See references, Table 1; median is calculated by author.

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10/22/03

Date

State Rankings and Summary of Findings

Following are the state rankings for the Small Business Survival Index 2002:

Small Business Survival Index: State Rankings

Rank	State	SBSI Score	Rank	State	SBSI Score
1	South Dakota	21.080	27	Utah	43.239
2	Nevada	23.270	28	Idaho	43.510
3	Wyoming	27.640	29	Kentucky	43.520
4	Texas	29.730	30	Massachusetts	43.770
5	Florida	30.110	31	Wisconsin	44.100
6	New Hampshire	31.010	32	Kansas	45.810
7	Tennessee	31.090	33	Connecticut	46.280
8	Washington	31.340	34	Nebraska	46.350
9	Mississippi	33.630	35	North Dakota	47.025
10	Alabama	33.775	36	Oregon	47.550
11	Michigan	33.950	37	North Carolina	47.990
12	Colorado	36.680	38	Montana	47.994
13	Illinois	36.820	39	New Jersey	48.310
14	Virginia	37.400	40	Ohio	49.060
15	Indiana	37.690	41	West Virginia	49.230
16	South Carolina	38.750	42	Vermont	49.454
17	Pennsylvania	38.800	43	New York	49.955
18	Louisiana	39.044	44	Iowa	50.358
19	Missouri	39.196	45	Rhode Island	50.730
20	Arizona	39.740	46	California	52.250
21	Alaska	40.360	47	New Mexico	52.440
22	Georgia	40.970	48	Minnesota	53.610
23	Delaware	41.070	49	Maine	53.810
24	Arkansas	41.610	50	Hawaii	54.720
25	Maryland	41.720	51	District of Columbia	60.115
26	Oklahoma	42.660			

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Relocating to Sioux Falls?

USA WEEKEND

Black History

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Weekend every
Sunday in the Argus
Leader

Absence of taxes gives South Dakota an edge

Jay Kirschenmann
Argus Leader

published: 2/8/2003

Also enticing: Well-trained workers

South Dakota's favorable business climate is luring dozens of companies from neighboring states.

And while Iowa and Minnesota offer incentives to draw and retain businesses, they don't have South Dakota's not-so-secret weapon: the absence of a corporate or personal income tax.

Fleeing their higher-cost home state, more than 20 businesses from Minnesota alone have set up shop in South Dakota since 2000. Dozens more from other states either have relocated or expanded into South Dakota in recent years.

"In Minnesota, I think they feel that 'Oprofit' is a dirty word," said Jim Lampy, president of American Concrete Products. He moved his entire operation from Fergus Falls, Minn., to Rapid City two years ago. "I love the business climate here."

An Iowa company, AmeriPharm, a subsidiary of Vet Pharm Inc. of Sioux Center, opened this week in Sioux Falls. It fills prescriptions by mail and serves as an information provider for maintenance drug recipients.

For years, companies have made similar moves, and references to home echo in their names: Twin City Fan, Minnesota Rubber, Luverne Fire Apparatus and 3M (Minnesota Mining & Manufacturing).

The border battle is heating up as a new biotechnical industry develops in the region.

Iowa, home to Trans Ova Genetics in Sioux Center, is offering incentives to keep the biotech company's business as it plans for significant growth.

Trans Ova is looking for a location to build an animal biotechnology center, which could cost up to \$100 million. David Faber, president and co-founder of the company, said it's too early to tell which state will be home to the new center.

<http://www.argusleader.com/news/Saturdayfeature.shtml>

2/9/2003

Proposed Amendments to SB 2314

2/11/03
4:35 PM

Repeals Individual Income Tax effective tax year 2003
Repeals Corporation Income Tax effective tax year 2003
Increases the general sales & motor vehicle excise tax rates to 6%
Broadens the sales tax base as follows:

Resources

Gasoline	Remains Exempt
Coal	Remains Exempt
Electricity	6%
Water Through Mains	6%
Natural Gas	4%
Heating Fuels	4%

Publishing

Newspapers	Remains Exempt
Magazine Subscriptions	6%
Bibles, Hymnals, Prayerbooks	6%
and Textbooks Purchased by Private Schools	
Textbooks Purchased by Students	6%

Medical

Prescription Drugs	Remains Exempt
Oxygen and Anesthesia Gases	Remains Exempt
Artificial Devices (Hearing Aids, Eyeglasses, Lirr	Remains Exempt
Ostomy Devices and Supplies	Remains Exempt
Diabetic & Bladder Dysfunction Supplies	Remains Exempt
Equipment to Modify Articles for Disabled	Remains Exempt
Sales to Hospitals and Nursing Homes	Remains Exempt

Agricultural

Commercial Fertilizer (For Ag Purposes)	Remains Exempt
Livestock and Poultry Feed	Remains Exempt
Seeds for Planting	Remains Exempt
Fungicides, Herbicides, and Insecticides	Remains Exempt
Used Farm Machinery	3%
New Farm Machinery	6%

Other

Money	6%
Grocery Foods not already subject to tax	Remains Exempt
New Mobile Homes	6%

Miscellaneous Exemptions

Rental of Hotel and Motel	6%
Accommodations	6%
Film Rental (Movie Theater)	6%
Sales to Residents of Montana	6%
Sales to Residents of Canada (Refund)	6%
State and Local Fairs	6%
Private and Parochial Schools	6%
Inter-State Telephone	6%
Cable Television	6%
Auctions	6%
Manufacturing & Recycling Equipment	6%

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Date

Proposed Amendments to SB 2314 cont.

Services

72 Personal	6%
73 Business	6%
75 Auto Repair	6%
76 Misc. Repair	6%
78 Motion Pictures	6%
79 Amusement & Rec	6%
81 Legal	6%
82 Education	6%
84 Museums	6%
86 Membership	6%
87 Engineering and Mgmt	6%
47 Transportation Services	6%
64 Insurance Services	6%
65 Real estate	6%

Fiscal Analysis:

2003-05 Biennium

Total Sales & Motor Vehicle Excise Tax (SGF)
Expected under provisions of SB 2314 as am. 1,327,688,000

Total Sales, Motor Vehicle, Individual & Corp
Expected under current law 1,328,397,000

Net Fiscal Impact of SB 2314 as amended (709,000)

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10/22/03

Date

**STATES WITHOUT A PERSONAL INCOME TAX -
POPULATION CHANGE COMPARISON**

This memorandum provides a comparison of population growth of states with no personal income tax provisions to North Dakota and other regional states. There are seven states that do not collect personal income tax—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Based on Bureau of Census information for fiscal year 2001, North Dakota residents paid an average of \$336 per capita in personal income tax, or the 41st highest collections per capita of the 43 states that provide for personal income tax. In comparison, Montana collected an average of \$615 per resident or 30th highest, and Minnesota collected \$1,188 per resident or 6th highest. A comparison of population and growth trends from the 1990 census to the 2000 census among these states is as follows:

State	1990 Population	2000 Population	Increase	Percentage Increase	National Rank Based on Percentage Increase
States Without a Personal Income Tax					
Nevada	1,201,833	1,996,257	796,424	66.3%	1
Florida	12,937,926	15,982,378	3,044,452	23.5%	7
Texas	16,986,510	20,851,820	3,865,310	22.8%	8
Washington	4,866,692	5,894,121	1,027,429	21.1%	10
Alaska	550,043	626,932	76,889	14.0%	17
Wyoming	453,588	493,782	40,194	8.9%	32
South Dakota	696,004	754,844	58,840	8.5%	36
Area States With a Personal Income Tax					
Montana	799,085	902,195	103,130	12.9%	20
Minnesota	4,375,099	4,919,479	544,380	12.4%	21
North Dakota	638,800	642,200	3,400	0.5%	50



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Section 7-Day Archive
S M T W T F S

Absence of taxes gives South Dakota an edge

Jay Kirschenmann
Argus Leader

published: 2/8/2003

Also enticing: Well-trained workers

South Dakota's favorable business climate is luring dozens of companies from neighboring states.

And while Iowa and Minnesota offer incentives to draw and retain businesses, they don't have South Dakota's not-so-secret weapon: the absence of a corporate or personal income tax.

Fleeing their higher-cost home state, more than 20 businesses from Minnesota alone have set up shop in South Dakota since 2000. Dozens more from other states either have relocated or expanded into South Dakota in recent years.

"In Minnesota, I think they feel that 'Profit' is a dirty word," said Jim Lampy, president of American Concrete Products. He moved his entire operation from Fergus Falls, Minn., to Rapid City two years ago. "I love the business climate here."

An Iowa company, AmeriPharm, a subsidiary of Vet Pharm Inc. of Sioux Center, opened this week in Sioux Falls. It fills prescriptions by mail and serves as an information provider for maintenance drug recipients.

For years, companies have made similar moves, and references to home echo in their names: Twin City Fan, Minnesota Rubber, Luverne Fire Apparatus and 3M (Minnesota Mining & Manufacturing).

The border battle is heating up as a new biotechnical industry develops in the region.

Iowa, home to Trans Ova Genetics in Sioux Center, is offering incentives to keep the biotech company's business as it plans for significant growth.

Trans Ova is looking for a location to build an animal biotechnology center, which could cost up to \$100 million. David Faber, president and co-founder of the company, said it's too early to tell which state will be home to the new center.

<http://www.argusleader.com/news/Saturdayfeature.shtml>

2/10/2003

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Operator's Signature

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"We're still open to any and all possibilities," said Faber, who added that the company is interested in developing a "biotech region" in the Midwest.

Trans Ova made a name for itself with its efforts to clone cattle and produce special proteins for use in human and animal drugs and other products.

The company works closely with Hematech, a Connecticut-based biotech company that moved 20 scientists and labs to Sioux Falls from Massachusetts and Kansas last year.

Faber said he likes the momentum of biotech development in the area.

"State lines are not as important to us as attracting animal biotech businesses into this area. We're not as concerned about the state lines as perhaps the state officials are."

Faber said his company still is "basically an Iowa company," and he is pleased with Iowa's leadership and help.

"But when (a company) has more ideas and potential than capital, one looks for the greatest opportunities," he said. "We're not trying to place one state against the other. In the long run, we just want to continue developing this region."

Competition Healthy

South Dakota "stole" a well-known Iowa business in 1990 when the Gateway headquarters moved from Sioux City, Iowa, across the state line to North Sioux City, S.D. Gateway's headquarters moved to the San Diego area in 1998, but factories remain in North Sioux City and Sioux Falls.

Iowa doesn't hold a grudge.

"It's a piece of history that can teach both states a lesson," said Jeff Rossate, division administrator for the Iowa Department of Economic Development.

"It was an eye opener, teaching us both how hard it is to attract a company back again after it leaves," he said. "I think that for the most part, South Dakota and Iowa come pretty close to each other when we have to be competitive on projects."

"But a bigger issue we all face is how to attract and keep markets in our regions, not necessarily just our states," Rossate said.

From the perception of Iowans, South Dakota is more of a partner in business than an adversary, he said.

"As with Trans Ova, in a perfect world, both states could assist in growing them as a regional cluster business," he said.

Meanwhile, Minnesota doesn't like to call competition a border war, said Mark Lofthus, director of marketing and business development for the Minnesota Department of Trade and Economic Development.

"Every state, and many towns in those states, are offering incentives, so I don't want to comment on whether South Dakota is doing more or less than they should," Lofthus said. "If there's a battle, it's with all other states, since we want to keep our businesses in Minnesota."

He said proposed legislation now being considered by the Minnesota state Legislature would create tax-free zones to help boost the economy in Minnesota towns.

Going for Businesses

South Dakota makes no apologies for its aggressive recruitment techniques or its concentration on courting Minnesota and Iowa companies.

"We market to businesses primarily in Minnesota -- manufacturing, and what we call 'back office' expansions for existing companies," said Toby Morris, director of business and community development for the Governor's Office of Economic Development. Officials from the Sioux Falls Development Foundation say the same.

Recruitment is ongoing through direct mail, personal contacts, site visits, advertising campaigns, trade shows and more.

Businesses across the nation can find out how their state compares to South Dakota by using an automated feature on the governor's office Web site.

At www.sdgreatprofits.com, entering two state names -- Minnesota and Iowa -- brings these results:

Corporate Income Tax:

South Dakota: zero.

Minnesota: 9.8 percent.

Iowa: The first \$25,000, 6 percent; next \$750,000, 8 percent; next \$150,000, 10 percent; and over \$250,000, 12 percent.

Personal Income Tax:

South Dakota: zero.

Minnesota: Earnings of zero to \$26,480, 5.35 percent; \$26,481 to \$105,200, 7.05 percent; and more than \$105,000, 7.85 percent.

Iowa: Percentages ranging from 5.35 percent to 8.92 percent in nine earning categories.

One of Morris' print-media advertising campaigns in Minnesota features sports themes, such as a frustrated man in business attire between hockey players in a penalty box, with a caption: "Tired of being penalized for making money? Call us."

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The campaign followed each sports season, from football to golf.

"We have a productive labor force and a great work ethic here," Morris said. "Add to that our favorable tax climate and there's a lot we can offer companies."

Marketing Works

American Concrete moved from Fergus Falls, Minn., to Rapid City in September 2000.

"Taxes were the No. 1 consideration," said Jim Lampy, company president. "Minnesota has a high personal income tax and corporate income tax, and South Dakota has zero. It was an easy decision to make."

Lampy said he likes South Dakota's business-friendly environment. He studied the state Web site and the Rapid City Area Economic Development Partnership site, then began talks with the state and city.

Minnesota worked hard to keep his 7-year-old company from moving, Lampy said.

The state offered far more money and incentives, and it would have been to his benefit for the short term. But Lampy calls the efforts "bait to stay" that would have cost him more in the long run.

American Concrete makes concrete block manufacturing equipment, about 80 percent of which is exported outside of the United States.

"Moving here was the best thing we ever did in our lives," he said. "You can talk all you want about civic obligation, but whoever complained that they have too much money in their checking account?"

American Concrete took advantage of South Dakota's Revolving Economic Development Initiative loan program and the Rapid City's low-interest loan funding program, said Bob DeMersseman, president of the Rapid City's Economic Development Partnership.

"Our first contact with Mr. Lampy was through our Web site," DeMersseman said. "In the face of competition from other states, South Dakota still has the edge. We do marketing, and Minnesota still is our happy hunting ground."

Sioux Falls' Efforts

The Sioux Falls Development Foundation constantly recruits business. That includes Iowa's Trans Ova Genetics.

"We've had discussions," said Dan Scott, foundation president. "I've been down there; they've been up here. Wherever they end up, we wish them great success. They are why Hematech is in Sioux Falls."

Aside from the financial incentives, there are other advantages over neighboring states, said Dan Hindbjorgen, vice president of the development foundation.

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South Dakota offers up a brew of low-interest revolving-loan funds, no taxes on business inventory, and economic-development bonds.

The state also has a growing, well-trained and highly motivated work force, and a government attitude that encourages profit and growth, Hindbjorgen said.

Add to that available and affordable buildings and land, and an increased profitability because of low costs of doing business, and more businesses will come.

It doesn't hurt to be located at an accessible location, Hindbjorgen said, at the crossroads of two major interstate highways.

"We also have the capability of fast-tracking projects, allowing companies to be up and running faster in Sioux Falls than in any other location in America," he said.

From first meetings in the early 1950s, through the 1972 partnership with the U.S. Geological Survey which brought the EROS Data Center to Garretson, to the location of the first Citibank credit card processing center in 1980, the development foundation has been the central force for economic development in the Sioux Falls area.

The group administers industrial parks, provides information and services for growing and relocating businesses and coordinates economic development strategies.

Through the years, cities such as Watertown and Brookings also have benefitted by luring out-of-state businesses.

On the horizon are other companies coming to the state, such as Ware Manufacturing Inc. of New Hope, Minn. It plans to open in Lennox this spring.

President Dave Robertson said the company looked at locations in four states before deciding on Lennox. South Dakota's attractive business climate was a factor.

Ware will move into a 68,000-square-foot building worth

\$2.4 million. The company forms and shapes metal for numerous companies, including Toro for its lawn mowers.

Other companies have long called Sioux Falls home.

Hutchinson Technology Inc., which for 15 years has operated a computer-parts manufacturing plant in Sioux Falls, is still based in Hutchinson, Minn.

Both Scott and Hindbjorgen point to AmeriPharm as one of the more recent success stories. It is a subsidiary of Vet Pharm Inc. of Sioux Center, Iowa.

The company opened Feb. 1 at 2503 E. 54th St. N. in Sioux Falls. It operates in a 50,000-square-foot facility as a mail-service prescription drug

and information provider for maintenance drug recipients.

About 30 employees have started working toward a Phase I goal of 5,000 prescriptions per daily shift, said Cordell Brooks, director of sales and consumer services. The location has a capacity of 15,000 prescriptions daily.

"There are a lot of pharmacy technicians and pharmacists, as well as call-center personnel available here," Brooks said.

"It was not only the favorable tax climate of South Dakota, but the quantity of technologically advanced workers available that was attractive. We're glad to be here," he said.

Reach business reporter Jay Kirschenmann at 331-2312 or via e-mail at jkirsch@argusleader.com.



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10/22/03
Date

Boyd, Dennis

To: Senate Finance and Taxation Committee
Subject: SB2314

Good morning, Mr. Chairman and members of the Committee. For the record, my name is Dennis Boyd appearing this morning on behalf of MDU Resources Group, Inc. and all of our subsidiaries. In support of SB2314.

and other legislators who are that effort.
First of all I want to commend Senator Schobinger for his persistence in trying to find a way to eliminate the income taxes in North Dakota. While I realize SB2314 has become a fairly large omnibus tax bill and its fate at this point is unknown, Senator Schobinger has put forth a proposal which has sparked the debate about income and sales taxes, which in my opinion, is long overdue.

On the matter of sales taxes, Mr. Chairman and members of the committee, our corporate position has historically supported the legislature's position as long as the imposition of the sales tax neither advantaged nor disadvantaged any seller or any competitor. We have not opposed sales tax increases as long as the tax was applied equally and fairly. As you know, our utility company, Montana-Dakota Utility Co. sells both electricity and natural gas, two commodities which currently are exempt, or partially exempt, from the sales tax. We would not oppose extending the sales tax to those commodities, as long as both are taxed equally.

The corporate income tax provision of SB2314 is our primary interest. Economic developers and elected officials have long recognized the corporate income tax rate can be a powerful tool in attracting new businesses to our state. On many occasions, I have stood in front of this committee and others, testifying in favor of or against various attempts to tinker with the 10.5% rate. Always, tinkering with the rate is coupled with eliminating the current deduction for federal income taxes, and always, those efforts to tinker are very rate sensitive for all corporate income tax filers and always those efforts result in "winners" and "losers" among corporate filers.

SB2314 does something no other proposal has dared to propose - the total elimination of the corporate income tax. It is a very bold step that is not rate sensitive and treats all corporations - big, small, new, or old - exactly the same. It is an extraordinarily loud signal to anyone contemplating a move to North Dakota that we are serious, and we mean business about economic development and creating a favorable business climate.

Yesterday I came across an interesting article which appeared in the Sioux Falls Argus Leader on Saturday, February 8. The headlines proclaim Absence of taxes gives South Dakota an Edge. A subheadline continues Also enticing: Well-trained workers.

The article begins "South Dakota's favorable business climate is luring dozens of companies from neighboring states. And while Iowa and Minnesota offer incentives to draw and retain businesses, they don't have South Dakota's not-so-secret weapon: the absence of a corporate or personal income tax."

The article continues and talks about specific companies which have located in South Dakota, a developing "border battle" with new biotechnical industries, and the attraction and retention of highly skilled, highly compensated workers. ~~It is an interesting article which can be accessed at argusleader.com.~~

Finally, Mr. Chairman and members of the committee, I again realize this is a very big, omnibus bill. I realize the necessity of including the sales tax broadening to offset the fiscal notes attached to eliminating the corporate income tax. Perhaps it will be too big to digest in one legislative session. In lieu of rejecting the bill because it is too big, perhaps a viable alternative would be to phase out the corporate income tax over a 3 year time frame, and perhaps to phase in the sales tax broadening over the same time period. It wouldn't be the first time a tax was phased in, or out, over a multi-year timeframe.

That concludes my testimony.

2314
BOC
550

Dennis Boyd
Operator's Signature

10/22/03

Date



NORTH DAKOTA

**Testimony of Bill Butcher, State Director, National Federation
of Independent Business (NFIB) in support of SB 2314**

NFIB represents approximately 3000 small business owners
throughout North Dakota.

All positions that NFIB takes on issues before the Legislature
are determined entirely by member ballots. We do not take a
position unless at least 60 percent of our members vote in favor of
or against an issue.

Last week a special ballot was presented to our North Dakota
members to background them on this bill, to provide them with
balanced viewpoints both in support of and in opposition to the bill,
and to provide them with an opportunity to vote their preference.

The results of our member poll was 62 percent in favor of
elimination of all income taxes in North Dakota and state reliance
instead upon sales tax for revenues. 31 percent were opposed and 7
percent were undecided.

Therefore, I am here to report that NFIB is taking a position in
support of SB 2314, as amended, and request that you forward a
"Do Pass" recommendation to your colleagues in the Senate. We
realize that there may need to be some changes here and there, but
conceptually we support this bill.

National Federation of Independent Business - NORTH DAKOTA
311 E. Thayer Avenue, Suite 119 • Bismarck, ND 58501 • 701-224-8333 • Fax 701-224-1097 • www.nfib.com

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Deanna Dalkin
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Honorable Committee Members

From our perspective, any legislation that seeks to substitute the sales tax for income tax unfairly hurts those people among us that can least afford to pay. It is much better to have the greatest percentage possible of people in our state to be able to fulfill the basic needs of both themselves & their families by keeping basic necessities as affordable as possible.

Do not be fooled into believing that taxing services that have not traditionally been taxed before will help the economy. Most of these services require much time & expense preparing themselves & their facility for the level of service they provide. Often they have equipment that requires a great deal of upfront cost, modification, & ongoing maintenance costs. On these ongoing costs they have already paid sales & use tax & also their share of property tax. If anything, SB2314 will hurt the economy. I have taken the time to read every word of this 47 page bill & it should not pass.

The proposed sales tax that SB2314 has included in it is really a gross receipts tax. Any good bookkeeper or accountant will tell you that gross money taken out before the breakeven point has occurred puts the business at a much greater risk of failing. It is more gambling & speculation than a solid accounting practice.

Over the past years I have noticed many articles in my trade journals about when state lawmakers force the services tax on its people; it usually creates great resentment & the law is sometimes actually repealed by the people such as in Florida. The negatives far outweigh the positives in terms of hardships created.

+ Massachusetts →
Smaller businesses collectively provide for many more livelihoods than larger businesses. Smaller businesses deserve a tax environment that doesn't prevent them to grow large enough so they can hire both younger & older people for backup & to maintain a level of service that is value driven & not value killed by bad tax policy. Bigger is not always better as has been shown by the biggest corporations of all such as WorldCom, Enron, & many others who give & share less value than the smaller entities working together with a common goal of actually improving peoples' lives.

Having a healthy income tax rate such as the present 2 to 5 percent of gross adjusted net income is by far fairer, more moral, than the SB2314 alternative. People going beyond standard deductions will have less to share with churches & charities because the tax reality won't let them. All net income is a gift to some extent so we should be happy to share our fair proportion that is needed to run the necessary functions of a value driven state government.

Service businesses should try to protect the people they serve from major increases of very questionable value such as this unnecessary extreme tax increase. Studies have shown that people with lower incomes can pay several times the percentage of their income with regressive service taxes than someone in a higher income bracket. Even if South Dakota starts growing like wildfire similar to Nevada it should not mean that we want to follow in their less than ideal footsteps. Nevada has the highest suicide rate in the country. I mentioned that because South Dakota has gone down the path of more gambling also. South Dakota is ranked #4 in the nation for regressive taxes & North Dakota would have the dubious curse of being in the wrong top ten if SB2314 goes through. By the way, back in 1987 the service tax promoters were using Iowa as their prime example of a similar state to the then legislators as successful. Long term wise, it didn't work out for Iowa & in the long term it is not the best for North Dakota. Adding service taxes to our tax structure also would add administrative costs for the smaller businesses & for our state tax department.

Mike Walsh of Bismarck

Owner-operator of the King Koin Launderette & Car Wash
2125 E. Thayer Ave.
Bismarck, ND 58501
701-223-0327
701-223-9833
miwalsh@btinet.net

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Deanna Walsh
Operator's signature

10/22/03
Date

February 11, 2003

Mr. Michael J. Walsh
King Coin Launderette & Car Wash
2125 E. Thayer Ave.
Bismarck, ND 58501

Dear Mr. Walsh:

Re: SB 2314
Potential Loss of Sales Tax Exemption for
Self-Service Laundry

*Copy of letter
from CLA for
Senate tax
committee*

Please allow this letter to serve as notice of the Coin Laundry Association's opposition to SB 2314, which would remove the exemption from sales tax for self-service laundries in the State of North Dakota. The Coin Laundry Association (CLA), a national not-for-profit trade association representing 35,000 laundries in the U.S., supports the position currently being advanced by self-service laundry owners in North Dakota.

All self-service laundries in North Dakota should remain exempt from sales tax based on several factors:

- 1) Sales Tax on Self-Service Laundry is an Unfair Tax: Operators of self-service laundries pay sales tax upon purchase of their equipment and pay taxes on all utilities provided to customers. They simply make the equipment available to their customers on a self-service basis. Those members of the community who can afford home laundry equipment do not pay sales tax to wash their clothes.
- 2) Sales Tax on Self-Service Laundry is Un-collectable: Over 98% of self-service laundries are equipped to accept payment with quarters only. This makes the collection of this type of tax nearly impossible. The removal of this exemption would essentially result in a gross receipts tax on the small business owners operating laundries.
- 3) Sales Tax on Self-Service Laundry is a Regressive Tax: Self-service laundries serve lower income renters; senior citizens on fixed incomes; students; and others who cannot afford washers and dryers of their own and cannot afford to pay more taxes.
- 4) Sales Tax on Self-Service Laundry is a Tax on a Basic Public Health Service: Self-service laundries provide a basic public health service to the community. Clean clothes are a necessity, not an optional or luxury service. Those families visiting their local laundry each week rely on these services for the health and safety of their families.
- 5) Sales Tax on Self-Service Laundry is the Exception to the Rule: Only five (5) states assess sales tax on self-service laundry. Removing this exemption would place North Dakota among the overwhelming minority of states taxing self-service laundries.

Again, we strongly support your position opposing the passage of SB 2314. This bill would have a devastating effect on the dozens of self-service laundry operators in North Dakota, as well as the multitude of families relying on your services each week. Please accept our invitation to contact us should you need further information about this critical issue.

Respectfully,

Brian R. Wallace, Executive Director

Brian R. Wallace
Operator's Signature

10/22/03

Date

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1122 N 3 St Bismarck 222-4766
580 Burlington St Mandan 667-5748
835 S Washington St Bismarck 222-3517
Don's Super Valu 319 Main Napoleon 754-2255
Dearing Super Valu
116 Clark Av Goodrich 884-2636
Family Food Center
222 Main Av S New Leipzig 584-2207
Glen Ullin Super Valu
112 Main St S Glen Ullin 348-2500
Gross Super Valu 184 Main S McClusky 343-2224
Harbor Bar
Hwy 83 & Frontage Rd Coleharbor 442-3129
Huhn's Food Center 114 Hwy N Linton 254-5487
John's Food Center
Lincoln Plaza Lincoln 255-6496
K & L Super Valu 113 Mitchell Av S Steele 475-2612
Lyon's Delicatamart 2nd Av & Main Elgin 584-2923
Mini Mart
Store #682 2600 E Nasser Av Bismarck 258-5315
Store #683
2825 N Washington St Bismarck 258-3400
Zone Office 215 Airport Rd Bismarck 258-1150
North Collins Shop-N-Go
1418 Collins Mandan 663-2957
Olson's Foods Inc 118 2 St E Mott 824-2191
R & J's Sav-Way Foods
223 N 15 St Bismarck 224-1017
S & V Country Market
381 Main St Carson 662-3393
Schmalz's Food Pride
206 Hwy 83 N Linton 254-5344
Stan's Super Value Hwy 13 E Wink 452-2351
Zealand Super Valu
185 South Main Zealand 423-5519

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Supervalue Inc 707 Airport Rd Bismarck 222-5400

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Bismarck, ND 58504
Office: 701-223-0061
Fax: 701-223-0061
utu@bis.midco.net

JOHN RISCH
State Legislative Director
NORTH DAKOTA LEGISLATIVE BOARD

Testimony of John Risch Before the Senate Committee on Finance and Taxation Opposing SB 2314 February 12, 2003

Mr. Chairman and members of the committee, my name is John Risch. I am the elected North Dakota Legislative Director of the United Transportation Union. The UTU is the largest rail labor union in North America. Our membership includes conductors, engineers, switchmen, trainmen, and yardmasters. The UTU opposes SB 2314 for a number of good reasons. I will address the corporate tax repeal first.

Corporate Income Tax

Repealing the state corporate income tax would grant tax relief only to "profitable" corporations. Struggling corporations would not benefit because struggling businesses pay little or no income tax. The beauty of our current income tax system is that it is self-adjusting. When a business hits a downturn, it pays little or even no income tax in a given year. When things improve, a business's taxes increase along with its prosperity. The positive aspects of a business's tax liability being based on its ability to pay cannot be overstated.

This broad proposal to take corporate North Dakota off the income tax rolls is simply bad public policy. It grants tax breaks to established businesses without any obligation to reinvest any of that money in our state. One could argue that this bill will simply take corporations off the income tax rolls and not one new job will be created because there's no requirement for them to do so.

I work for the Burlington Northern Santa Fe Railway, which is a good company to work for. I enjoy my job. But taking BNSF off the income tax rolls won't cause them to create one new job in our state. My company creates jobs when there is work to be done. This bill will do nothing to enhance that.

When you think about North Dakota's current economy, there are segments that are in trouble. Certainly our state's farmers need help, but do Monsanto and Cargill need new tax breaks, as this bill provides? Certainly low-paid workers struggle, but do employers like Walmart and McDonald's need to be taken off the income tax rolls? I would argue, no.

At issue is fundamental fairness. It isn't fair to take the most prosperous entities in North Dakota off the state tax rolls and shift the tax burden onto the rest of us.

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John Risch
Operator's Signature

10/22/03
Date

Personal Income Tax

The personal income tax is by far the fairest tax because, like the corporate income tax, it is self-regulating, based on one's ability to pay. When a person has a high income in one year, they pay more taxes; when their income goes down, for whatever reason, their tax liability goes down correspondingly. If they have a very bad year, they pay no income tax at all.

For example, if a farm family has a prosperous year with a bumper crop, they're in a much better position to pay some income tax than in a year when they have little or no crop due to drought or disease. However, in both good and bad years, the expenses, and with it, their sales tax liability, remain relatively the same no matter what the outcome at harvest time.

Raising and expanding the sales tax is more harmful to moderate and lower income people than to affluent people because lower income people spend more of their disposable income on taxable items. Much of the money affluent people receive, after paying for goods and expenses, is invested and not taxed at all. Raising the sales tax will make our overall tax system less fair, putting more of our tax burden on those less able to afford it.

Our state has a diverse tax system that relies primarily on the income tax, the sales tax, and property taxes. To take away our most just tax, the income tax, and shift North Dakota's reliance to the sales tax is extremely risky. Any downturn in the economy dramatically affects sales tax revenue, and, as people purchase more goods over the internet, more sales tax avoidance will occur. The potential remains for a dramatic reduction in the collection of sales tax revenue in the future.

Proponents of slashing taxes on businesses and wealthy individuals often claim that such efforts will produce a rain of prosperity to fall on all of us. If this bill passes, most North Dakotans might get hit with little more than sleet and will end up paying higher taxes overall.

There are a host of good reasons why this legislation should be defeated. I've listed a few. But the main reasons are that it would make our tax system less fair and equitable, and it would place more of the tax burden on moderate and low income people while providing the most tax relief for the wealthiest among us. For these reasons, the UTU is proud to oppose this piece of legislation and urges this committee to recommend a "DO NOT PASS."

TESTIMONY
OF
JAMES FETTIG
ON BEHALF OF
NORTH DAKOTA STAFFING ASSOCIATION
BEFORE
NORTH DAKOTA SENATE COMMITTEE ON FINANCE AND TAXATION
ON
SB 2314

FEBRUARY 12, 2003

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Deanna Waller
Operator's Signature

10/22/03

Date

Mr. Chairman and members of the Finance and Taxation Committee, My name is Jim Fettig. I am Branch Manager for Kelly Services here in Bismarck. I appear today on behalf of the North Dakota Staffing Association which I serve as Co-Chair of its Legislative Committee.

The North Dakota Staffing Association consists of 13 members who provide staffing services to employers all across North Dakota. We strongly oppose the provisions of SB 2314 which would subject staffing services to North Dakota's sales tax. Staffing firms recruit and screen individuals with a broad range of skills. Staffing services today include a wide array of services from traditional office and clerical to information technology, health care, finance professionals and managerial positions.

A sales tax on staffing services is a tax on jobs. The uncertain state of the economy is in the news nearly every day. Now is not the time to make it more expensive to create jobs for the citizens of North Dakota. Each day the staffing industry provides work to about 2000 North Dakotans. Taxing these jobs will mean less work available for the people of this state. A sales tax on staffing services will reduce employment opportunities in North Dakota. National studies indicate that for every one percent of tax on staffing services, temporary jobs will be reduced by 2.13%. North Dakota needs more employment opportunities, not fewer.

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A sales tax on staffing services falls especially hard on small business, and on new start-up companies. Small businesses often use staffing firms for specialized needs like accounting, information technology, and advertising. While larger companies may choose to add staff to avoid the tax, this is simply not a realistic option for most small businesses. New companies frequently use staffing firms in the early stages until they are more certain of their permanent staffing needs.

Retail sales taxes should fall on final sales to consumers. A tax on staffing services is a tax on business-to-business transactions. A tax at this intermediate stage in the chain of commerce will result in tax pyramiding, so that the ultimate consumer is taxed at least twice on the same transaction.

I believe a sales tax on staffing services is poor economic policy. For the reasons stated above such a tax is not in the best interests of workers and employers in North Dakota.

Mr. Chairman, and members of the Committee, thank you for your time and attention. If you have any questions, I will be happy to address them at this time.



Institute on Taxation and Economic Policy
1311 L Street, NW • Washington, D.C. 20005 • (202) 737-4315

**EMBARGOED FOR RELEASE ON
TUESDAY, JANUARY 7, 2003 AT 10:00AM
CONTACT: Bob McIntyre, 202/737-4315**

North Dakota Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in North Dakota pay a higher share of their income in state and local taxes than do the richest families, according to a new study by the Institute on Taxation & Economic Policy.

"State and local governments are being called upon to take on more and more responsibilities," said Robert S. McIntyre, ITEP's tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. "Unfortunately, when it comes to paying for services, North Dakota has an unfair tax system."

North Dakota's Tax Code: Tax the Poor & Middle Class Far More Than the Rich

When all North Dakota taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of North Dakota families—with average incomes of \$393,000—is 6.5% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$40,000—is 9.1% before the federal offset and 9% after, almost twice the rate that the richest pay.
- But the tax rate on the poorest North Dakota families—those earning less than \$14,000—pay the highest rate at 10.2%, double the rate that the richest pay.

"North Dakota's progressive yet anemic income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system," McIntyre said. "Taxes ought to be based on people's ability to pay them, which means that the poorest should pay a smaller share of their earnings in tax, not the most, as is the case in North Dakota."

MORE...

Tax Regressivity Has Lessened Since 1989

The study also examined the impact of changes in the regressivity of North Dakota taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Overall, North Dakota's tax system became less regressive, with modest tax cuts for lower-income families, and tax hikes on the best-off North Dakotans.
- Income taxes rose progressively following the 1993 federal changes.
- The sales and excise tax burden fell substantially on low- and middle-income taxpayers.

"The declining ability of sales and excise taxes to provide revenue for needed services is on display in North Dakota," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that sales and excise taxes naturally decline over time and are not as reliable as income taxes. In addition, such regressive taxes impose a greater share of the tax burden on low-income taxpayers."

Two pages of tables detailing the North Dakota findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

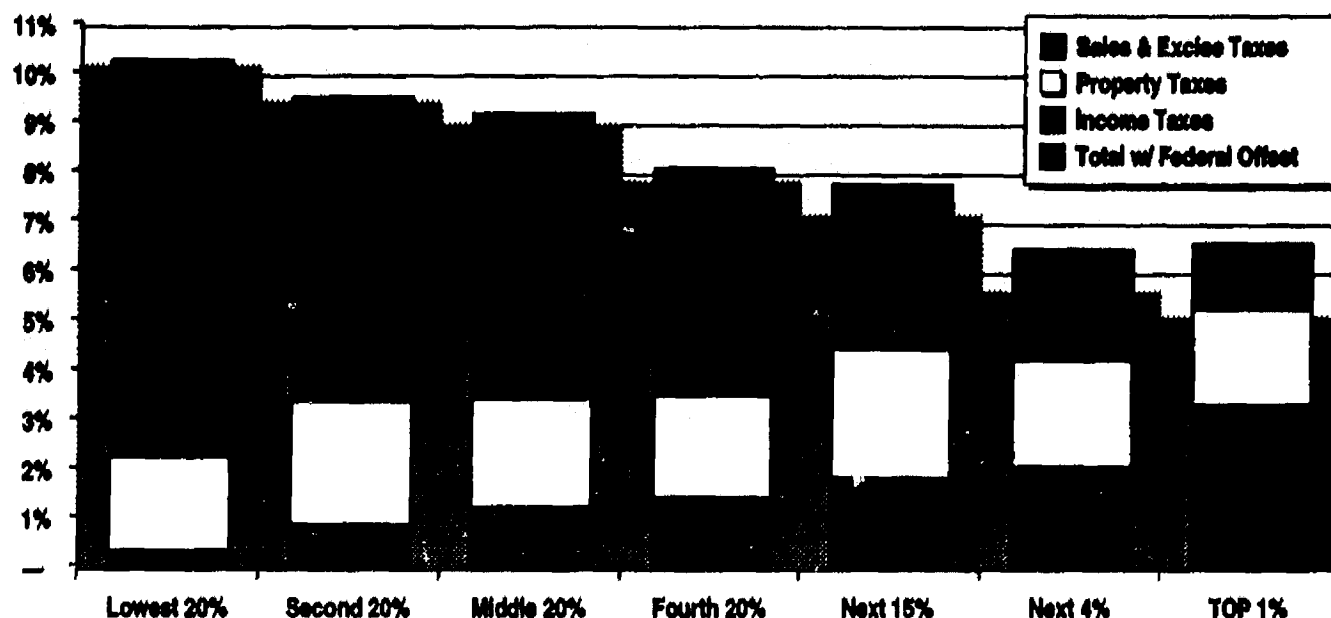
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE...

North Dakota

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$14,000	\$14,000 - \$25,000	\$25,000 - \$40,000	\$40,000 - \$64,000	\$64,000 - \$114,000	\$114,000 - \$229,000	\$229,000 or more
Average Income in Group	\$8,900	\$19,400	\$32,000	\$50,100	\$80,400	\$156,400	\$393,000
Sales & Excise Taxes	8.0%	6.1%	5.8%	4.6%	3.3%	2.2%	1.3%
General Sales—Individuals	3.5%	2.8%	2.8%	2.3%	1.7%	1.2%	0.8%
Other Sales & Excise—Ind.	1.6%	1.1%	1.0%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.9%	2.2%	2.0%	1.6%	1.1%	0.7%	0.5%
Property Taxes	1.9%	2.5%	2.2%	2.1%	2.6%	2.2%	1.9%
Property Taxes on Families	1.7%	2.4%	2.0%	1.9%	2.2%	1.6%	1.3%
Other Property Taxes	0.2%	0.1%	0.2%	0.2%	0.4%	0.6%	0.6%
Income Taxes	0.3%	0.8%	1.2%	1.4%	1.8%	2.0%	3.3%
Personal Income Tax	0.3%	0.8%	1.1%	1.4%	1.7%	1.9%	3.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
TOTAL TAXES	10.2%	9.5%	9.1%	8.0%	7.7%	6.4%	6.5%
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.2%	-0.5%	-0.8%	-1.4%
TOTAL AFTER OFFSET	10.2%	9.5%	9.0%	7.8%	7.2%	5.6%	5.1%

Note: Table shows 2002 tax law at 2000 income levels.

INSTITUTE ON TAXATION & ECONOMIC POLICY, JANUARY 2003

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Deanna Walker
Operator's Signature

10/22/03

Date

North Dakota Details

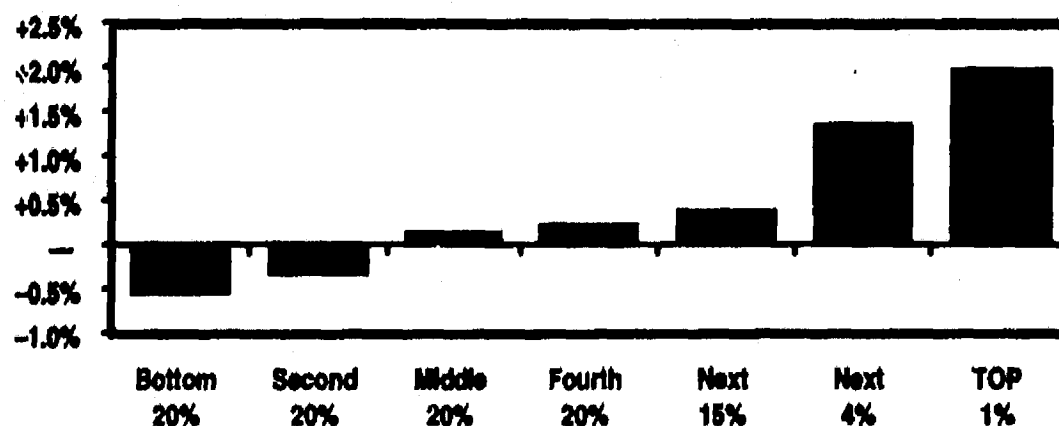
Progressive Features

✓ Graduated rates

Regressive Features

✗ Deduction for federal income taxes paid
✗ No indexing

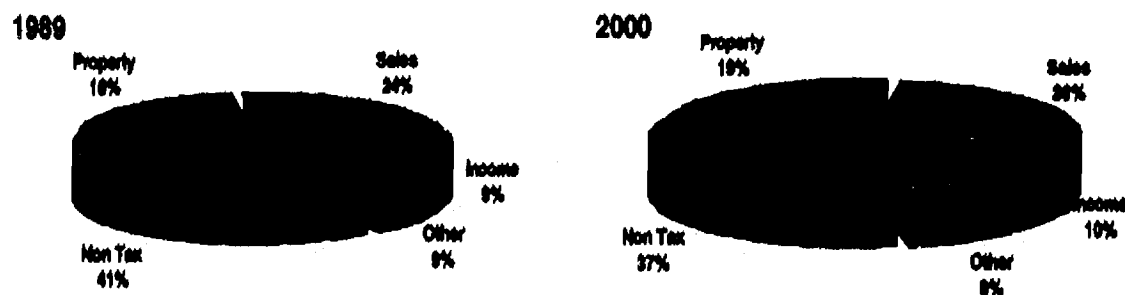
Changes in Tax as Share of Income, 1989 - 2002



	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.9%	-0.8%	-0.7%	-0.6%	-0.4%	-0.3%	-0.2%
Property	+0.6%	+0.4%	+0.5%	+0.2%	-0.2%	+0.2%	+0.2%
Income	-0.1%	-0.0%	+0.4%	+0.7%	+1.1%	+1.6%	+2.4%
Federal Offset	-0.0%	+0.0%	-0.1%	-0.0%	-0.1%	-0.1%	-0.4%
Overall Change	-0.6%	-0.3%	+0.1%	+0.2%	+0.4%	+1.3%	+2.0%

Local sales tax rates rose on average .5% over the decade. As most North Dakotans pay a state income tax based on a percent of their federal income tax, progressive rises in federal rates since 1989 are reflected in increased state income taxes for high income taxpayers.

Composition of Revenues



Source: Government Finance, US Department of Census

February 12, 2003

**SENATE FINANCE & TAXATION COMMITTEE
SB 2314**

CHAIRMAN URLACHER AND COMMITTEE MEMBERS:

My name is Jack McDonald. I'm appearing here today on behalf of The North Dakota Cable Television Association. We object to the portion of this bill that puts a tax upon the cable television industry in North Dakota while not taxing its direct competitors such as Direct TV, DBS and similar satellite services.

The cable industry already pays a so-called sales tax on its services that is passed on directly to its customers. This is the franchise tax that is charged by the cities we serve. In nearly all instances it is 5% to 6%. It operates just like a sales tax since it is based directly on our subscribers.

However, since the satellite services do not need a city franchise, they do not pay any franchise fees. Now, in this bill, our subscribers will be charged another 6%, in effect putting a 12% sales tax on our services to them, while our direct competitors pay zero per cent. This is simply not fair.

The cable industry pays its full share of corporate taxes and sales taxes in the form of franchise fees now. It is willing to step up to the plate with other North Dakota businesses and pay its fair share of taxes under any new taxation system this legislature devises. However, we don't think there is anything "fair" about its treatment under this bill.

We understand there will be about a zillion or so amendments offered and prepared for this bill, including those presented by its sponsor today. We would be willing to work with the sponsor, the committee and the Tax Department in preparing the necessary amendments to meet our concerns.

If you have any questions, I will be happy to try to answer them. **THANK YOU
FOR YOUR TIME AND CONSIDERATION.**

TESTIMONY
SENATE BILL 2314
FEBRUARY 12, 2003

- Mr. Chairman, members of the Senate Finance and Taxation Committee, my name is Bob Lamp representing the North Dakota Implement Dealers Association in opposition to the portion of Senate Bill 2314 that repeals the sales tax exemption for used farm machinery and repair parts. We also oppose the section of the bill that sets the sales tax rate on new farm equipment at 6%.
- NDIDA worked closely with the 1999 and 2001 legislative assemblies in seeking an exemption for used farm machinery and repair parts. We pursued the exemption because:
 1. It had an immediate and broad-based effect on the agricultural economy in North Dakota.
 2. It benefited the producers who are farming the land, farm equipment dealers and all agribusiness.
 3. It leveled the playing field for dealers competing against farm auctions which were not taxable transactions.
 4. It made North Dakota dealers more competitive with surrounding states and provinces that do not impose sales tax on farm equipment.
 5. It gave farm equipment sales the same status of all other input items in agriculture.
- The full exemption became effective on July 1, 2002. Now, less than one year later, the legislature is contemplating removing the exemption. This is hard to understand given the fact that the exemption has had the exact effect intended. (See handout).
- Finally, the bill calls for a 6% sales tax on new farm machinery. In my opinion, this tax rate will seriously impact the sale of new equipment given the fact that producers can go to other states or provinces that do not impose a sales tax on any farm machinery or repair parts.
- Mr. Chairman, NDIDA requests the committee's consideration of retaining the sales tax exemption on used farm machinery and repair parts and leaving the sales tax on new farm machinery at its current 3% rate.
- Thank you for listening.

Robert L. Lamp
North Dakota Implement Dealers Association

Quarter	Line 27 Deduction	Taxable Sales of Used Mach	Total taxable sales of Farm Machinery Reported	Taxable Sales of New Farm Mach
1999:3	37,980,093	75,960,186	102,605,088	26,644,902
1999:4	24,361,250	48,722,500	81,002,814	32,280,314
2000:1	25,151,948	50,303,892	76,854,659	26,550,767
2000:2	34,596,383	69,192,766	109,601,967	40,409,201
2000:3	41,513,149	83,026,298	120,633,310	37,607,012
2000:4	30,019,760	60,039,520	90,220,744	30,181,224
2001:1	26,527,618	53,055,236	89,710,977	36,655,741
2001:2	42,638,195	85,276,390	137,009,537	51,733,147
2001:3	44,212,747	88,425,494	132,791,056	44,365,562
2001:4	29,670,626	59,341,252	97,774,303	38,433,051
2002:1	28,627,730	57,255,460	95,604,352	38,348,892
2002:2	41,324,635	82,649,270	129,740,771	47,091,501
2002:3		Exempt	46,175,412	46,175,412

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Deanna Hall
Operator's Signature

10/22/03
Date

TESTIMONY OF CAROL TWO EAGLE ON SB 2314. February 12, 2003.

Hau mitakuyapi. Hello my relatives. Senator Erlacher and members of the Committee, for the record, my name is Carol Two Eagle.

I am opposed to certain parts of SB 2314 & so will only speak to those parts. I am opposed to the idea of taxing a person's labor. There is something singularly onerous & odious about taxing a person's labor. This refers to the part of the bill that proposes putting sales tax on services and labor. By no means does anyone get "a free ride" when their labor or a service they provide is not taxed, because there is no such thing as a free ride in any part of life. But having earned my living by the sweat of my brow literally, by my choice rather than using my college degree, I tell you now that to tax a person's labor is insulting to such people as earn their living by service work. I have a feeling of being demeaned by the concept.

When I lived in states that had sales tax on my labor as well as on the goods I sold at retail, I didn't object to the tax on the goods. But it really grated on me to have to tax my labor as well. It takes the heart out of the idea of doing a service for someone. And everyone I knew in those states felt the same way. I have worked in 35 U.S. states & 4 Canadian Provinces, so I know a lot of people.

I hope you will cut this concept out of the bill.

I am further opposed to the concepts of eliminating individual income and corporate income taxes, for several reasons. First, it limits the available sources of tax revenue. I am a firm believer in not putting all of one's eggs in one basket. Given that there are only 4 sources of tax revenue available - individual income, corporate income, sales & property - I think it ranges from risky to the edge of foolish to eliminate 2 sources of tax revenues. If nothing else, it gives less flexibility in gathering money for the state budget, and flexibility is essential to success in any enterprise.

In the case of the property tax - if the individual & corporate income taxes are gone, since the money has to come from somewhere, property taxes will rise sharply. This will force elderly people out of their homes. It will force anyone on a fixed income out of their homes. That already happens oftener than we might think. Putting so much of the budget burden on the property tax would worsen the problem exponentially.

Hugely higher property taxes will also make it much harder for very small businesses, businesses which are shaky for any reason, but especially startup businesses, to survive. Small business is the heart of the world's economy. Thus it is the heart of North Dakota's economy. Hugely higher property taxes will make it very much harder - impossible in many cases - for these businesses to thrive and grow. Thus, it will hurt North Dakota's efforts at economic expansion in the long run.

I have heard it said that South Dakota does not have corporate or individual income taxes, and this is given as another reason to eliminate these taxes from North Dakota's tax structure. But Senator Erlacher & members of this Committee, I do not hear of or see large numbers of corporations or individuals flocking to South Dakota to live. I don't think this is working, there, so I see no reason why it would work here.

Admittedly, I don't want to see a large population increase in North Dakota. We have a very valuable commodity here - peace, quiet, space, and large open or even wild areas. And a low crime rate. In a survey ND Dept. of Tourism did in 2000 of several thousand tourists, the answer of over 90% to the question, "Why do you come to ND for your vacation?" was, "For peace, quiet, and lots of open space and wild places". If you want to develop ND's economy in a good way, I think you should listen to those tourists.

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10/22/03
Date

One of the cardinal rules of successful business is, "Find a niche & fill it". Another is, "Give the customers what they want". Tourists are the state's customers. Give them motivation to come here, visit, leave their money with us, and then go home. We will still have our peace and quiet, our open spaces, and our wild places. We will still have a low crime rate compared to what they have in their home states. Tourists come & visit, and they leave many dollars here, but they take their problems such as crime rates & insistence on large amounts of additional infrastructure and government, with them.

Putting greatly increased emphasis on sales tax will hit those who live here - on markedly smaller incomes than the national average for most jobs - hard. It will not help them live better.

I don't mean to poke fun at anyone associated with this bill, because I really do respect everyone associated with this bill; but I cannot resist a pun here, so I hope you - and all concerned - will forgive my indulging in this pun. I ask this because I hear that people are getting tired and their senses of humor are suffering. Regardless, I love puns, so - I think this bill is a turkey, and I hope you will cook it - maybe even, overcook it - and carve it up and make hash of it, and get rid of these distasteful aspects of it. I think if you give this bill a favorable recommendation, you are going to give all of North Dakota indigestion, financially speaking.

Thank you for hearing me in a good way now. Many blessings. Mitakuye oiasin. (We are all related.)

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Deanna Wallin
Operator's Signature

10/22/03

Date

Testimony to the Senate Finance and Tax Committee

By: Glen Baltrusch

Wednesday - February 12th, 8:30 AM

Lewis & Clark Room - State Capitol

Mr. Chairman and members of the Senate Finance & Tax Committee my name is Glen Baltrusch. I appreciate having the opportunity to address you today.

I've lived my life in North Dakota. Many of you know me. I'm have a permanent accident disability and because of that have had the opportunity to spend a good deal of time here during the last several legislative sessions.

Over the last ten years the economy of North Dakota has clearly not been moving in a positive direction. I've watched with interest and concern as the mood and attitudes have shifted from positive to almost desperate.

This bill is the first major proposal I've witnessed aimed at taking North Dakota in a different direction. There is NO question in my mind that we must go in a different direction. SB 2314 is a new direction and one I very much hope you chose to take us.

I therefore urge you to give SB 2314 a DO PASS recommendation. Thank your for the opportunity to address your Committee today.

Testimony in Support of SB2314

Mr. Chairman and members of the committee, my name is Justin Dever and I'm a student at NDSU, living in Fargo. I'm in support of SB2314 because of its potential in bringing good paying jobs into North Dakota which will in turn keep more of our young people from leaving this great state.

I have been interested in the issue of out migration for quite a while now. I have been involved in the North Dakota Student Association for over 5 years and every so often people come to our organization asking what it takes to keep more young people in this state. The answer hasn't changed over the past 5 years. It is still better paying career opportunities. Our young people aren't leaving North Dakota to go to the Twin Cities because the weather is better there. Most aren't even moving there because there are more things to do. They are leaving for better career opportunities.

North Dakota is a wonderful place to live. It is the safest state. It has clean air and water, not to mention some of the best natural resources for hunting and fishing. And it is a wonderful place to raise a family with high quality education and a friendly community. Most of my fellow students realize this and would love to stay in the state. SB2314 will hopefully give them the career opportunities they need to make this a reality.

I encourage you to consider SB2314 in the context of what it will do for this state in terms of career opportunities. I realize that big changes are not easy to make, but sometimes big changes are needed. North Dakota's youth will continue to leave until something is done to bring the career opportunities into this state. SB2314 has the greatest potential I have seen to do just that.

Thank you.

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Justin Dever
Operator's Signature

10/22/03

Date

Testimony to the House Finance and Tax Committee

By: Senator Randy Schobinger SB 2314

Wednesday - March 12th, 9:00 AM

Fort Totten Room - State Capitol

OUR STATE is at a crossroads. The decisions we are making this session about which road we take will define our state for the next generation. The decisions aren't just economic. They are much more than that. What we do this legislative session will significantly impact whether we grow or wither in the coming years.

We all know and agree that the direction we have been heading isn't taking us where we want to go. Our youth are leaving. Our population is departing at the rate of 500 per month. That rate is accelerating.

If we continue down the road we have been on by next session our state will have between 12,000 and 20,000 fewer people. The majority of those leaving will be families and young adults. We **MUST** reverse this AND we must begin now.

The statistics tell a chilling story. All but four North Dakota counties will lose population over the next 20 years. The small business survival index ranks North Dakota 35th least attractive state in the nation to do business. Four independent analysts give North Dakota a C+ while South Dakota receives an A. SD always ranks in the top 5 while ND is in the bottom 10 in virtually every analysis ranking states as friendly or unfriendly to business.

In "Taxes and Economic Growth", a publication by renowned economist Dr. Richard Vedder, while reporting most neighboring states rank close in terms of "business friendliness" he notes the dramatic contrast between North and South Dakota. While South Dakota receives an "A" grade we get a "C+". If you were picking a place to do business, which would you, pick?

The road I wish our state to travel is one that will enable us to utilize the abundant natural resources our state has been blessed with. It is the road that will provide opportunities for our families and our children.

SB 2314 will NOT, by itself, turn our state away from the precipice we're heading toward. However, SB 2314 will accomplish TWO necessary things.

FIRST, it will prove that we can CHANGE direction and that change isn't as frightening as some think and,

SECOND, it will lay a solid foundation that will make our state attractive to business, industry and the jobs they bring.

Today there are far too few representatives from primary industry or large business entities here to testify. There is a reason for this. Our state has all too few primary industries or large businesses. This is because our state's tax code, our rules, our regulations and unfortunately a certain mind set makes our state adversarial to business and newcomers.

It is time we acknowledge this reality. We cannot afford to put off admitting the truth - IF we want to change the direction we are traveling. I want to change direction. The majority of those I know also want to move in a different direction. Today YOU can take the first step to make this change a reality - you can do so by giving SB 2314 a DO PASS recommendation.

I understand CHANGE is frightening for some. It is particularly frightening for those comfortable with the status quo. Unfortunately that is a "comfort" we can no longer afford.

Our state is changing whether we like it or not. SB 2314 is a "baby step". But it is a positive change. It tells business and industry North Dakota sees it as a valued citizen not simply another pocket to tax.

Our choice is really quite simple. North Dakota can continue down the same road. **OR** we can change direction and head down a different road -- a road we chose, a road that provides our citizens opportunities -- particularly the opportunity to stay and work here in North Dakota.

SB 2314 will make those opportunities reality. It will take us in a new, a better, a positive and an exciting direction. We must, however, realize that SB 2314 is just the first step. But, it is a critical first step because it sets us on the new course. As we head down this new road it will become evident what other changes we need to make and will want to make.

My degree is in economics. I know and virtually every modern economic text teaches that reduction of taxes on business results in increased revenue collections- not less. This increase comes about because of greater prosperity

Thank you. I now urge you to take the drivers wheel and turn North Dakota in a new direction by giving SB 2314 a DO PASS recommendation.

Honorable Chairman & Tax Committee Members:

"Are you...we... the PARTY OF LINCOLN or are YOU... the party that chooses to go in the direction of increasing the cost of living on breakeven businesses & other people living marginally here in North Dakota"

If you pass SB2314 or similar bills you will be increasing the likelihood of both corporations & people in general of not even reaching the breakeven point.

Philosophically, it is much more correct to require corporations, partnerships, & individuals to all reasonably share in their profits once they have reached that level of business. The key is to not increase their expenses so they can reach that needed profit in the first place.

The present rate of both corporate tax & income tax in North Dakota is at a very reasonable level. North Dakota can be proud of its moderation & balanced tax system. There is room for improvements & increased efficiencies; but this SB2314 in both its original form & its present form is an unhealthy regressive step backwards. The worst part of this bill is the proponents trying to set the stage for further regressive gross receipts taxes for future sessions. The people that will be hardest hit within your districts should be made fully aware of the details of the very flawed less than ideal plan of taxing the gross receipts of fragile service activities within the state.

The legislators of this session & of future sessions should pass laws that help nurture family values & worthwhile family businesses. By the way, supporting tax structure that steers away from increasing & expanding taxes on the "poorest of the poor" is one of those key family values!!!!

This true value mindset would much more likely increase our chances of our young people feeling compelled to stay or come back to be a part of a quality of life unexcelled anywhere in the world. For example, in 2002 we were rated #1 in the nation for lowest violent crime rate. "Out of staters" will notice our better values & we will tend to attract the type of better businesses, individuals & new families that we would want to attract.

If anything, family farms & all businesses need to decrease our over dependence on out of state & international corporations if we wish to truly develop from within our state.

This bill SB2314 tends to increase our dependencies on out of state & international corporations. If we FOCUS on producing value within our state.... the larger community of the world will seek us out in a good way.... instead of us overly seeking them.

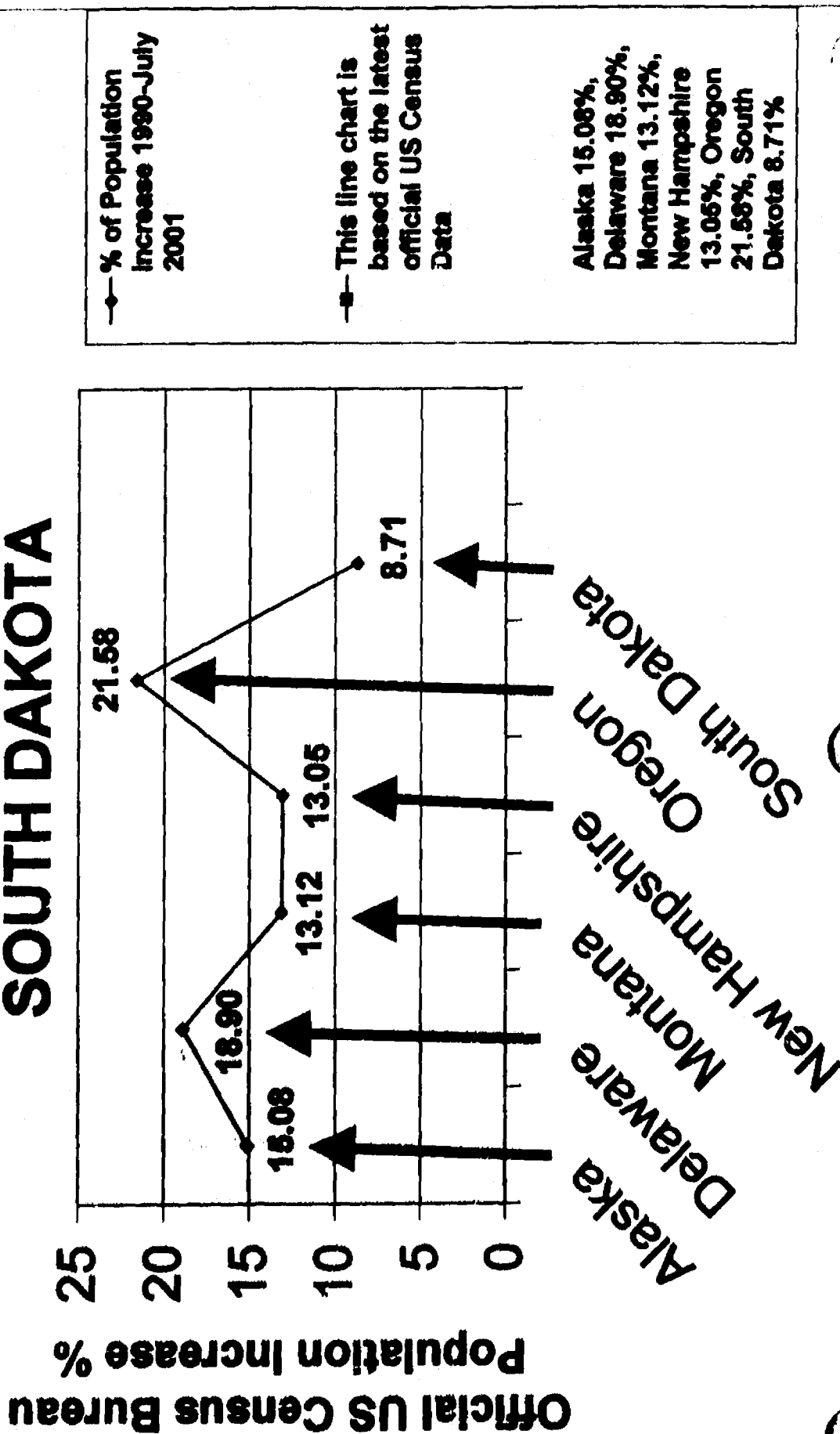
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Deanna Walsh
Operator's Signature

10/22/03
Date

**COMPELLING EVIDENCE SHOWS that
the STATES WITH LITTLE OR NO
SALES TAX have LESS OUT
MIGRATION than the highly regressive
SOUTH DAKOTA**



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Deanna Hall
Operator's Signature

10/22/03
Date

united transportation union

J RISCH
Legislative Director
NORTH DAKOTA LEGISLATIVE BOARD



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**Testimony of John Risch
Before the House Committee on Finance and Taxation
Opposing SB 2314
March 12, 2003**

Mr. Chairman and members of the committee, my name is John Risch. I am the elected North Dakota Legislative Director of the United Transportation Union. The UTU is the largest rail labor union in North America. Our membership includes conductors, engineers, switchmen, trainmen, and yardmasters. The UTU opposes SB 2314 for a number of good reasons. I will address the corporate tax repeal first.

Corporate Income Tax

Repealing the state corporate income tax would grant tax relief only to "profitable" corporations. Struggling corporations would not benefit because struggling businesses pay little or no income tax. The beauty of our current income tax system is that it is self-adjusting. When a business hits a downturn, it pays little or even no income tax in a given year. When things improve, a business's taxes increase along with its prosperity. The positive aspects of taxing a business based on its ability to pay cannot be overstated.

This broad proposal to take corporate North Dakota off the income tax rolls is simply bad public policy. It grants tax breaks to established businesses without any obligation to reinvest any of that money in our state. One could argue that this bill will simply take corporations off the income tax rolls and not one new job will be created because there's no requirement for them to do so.

I work for the Burlington Northern Santa Fe Railway, which is a good company to work for. I enjoy my job. But taking BNSF off the income tax rolls won't cause them to create one new job in our state. My company creates jobs when there is work to be done. This bill will do nothing to enhance that.

When you think about North Dakota's current economy, there are segments that are in trouble. Certainly our state's farmers need help, but do Monsanto and Cargill need new tax breaks, as this bill provides? Certainly low-paid workers struggle, but do employers like Walmart and McDonald's need to be taken off the income tax rolls? I would argue, no.

At issue is fundamental fairness. It isn't fair to take the most prosperous corporations in North Dakota off the state tax rolls and shift the tax burden onto the rest of us.

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Deanna Wallick
Operator's Signature

10/22/03

Date

Testimony of John Risch
SB 2314-Page 2

Our state has a diverse tax system that relies primarily on the income tax, the sales tax, and property taxes. To take away our most just tax, the income tax, and shift North Dakota's reliance to the sales tax is extremely risky. Any downturn in the economy dramatically affects sales tax revenue, and, as people purchase more goods over the internet, more sales tax avoidance will occur. The potential remains for a dramatic reduction in the collection of sales tax revenue in the future.

The fiscal note associated with this bill dramatically underestimates the fiscal impact because of the way business profits are currently taxed as personal income.

North Dakota tax law allows pass-through entities such as Limited Liability Corporations, Limited Liability Partnerships and regular partnerships to pass business profits through to individuals to be taxed at their personal income tax rate. This is a significant issue because the top corporate tax rate is 10.5% while the top individual income tax rate is 5.54%.

If this bill passes and the corporate income tax is phased out, virtually all these pass-through entities will revert to corporate status to free themselves of any income tax liability. We will even see a host of sole proprietors incorporate so they can avoid paying any income tax. And if corporate farming legislation is passed, farmers too could free themselves from paying any state income tax.

The effect of phasing out the corporate income tax is that there will be a mass scramble, mostly by the well off, to find ways to incorporate as a means to avoid paying any income tax in North Dakota.

Proponents of slashing taxes on businesses and wealthy individuals often claim that such efforts will result in prosperity raining down over us all. If this bill passes, most North Dakotans will likely just catch a little freezing drizzle and wind up paying higher taxes overall.

There are a host of good reasons why this legislation should be defeated. I've listed a few. But the main reasons are that it would make our tax system less fair and equitable, and it would place more of the tax burden on moderate and low income people while providing tax relief for those who don't need it.

For these reasons, the UTU is proud to oppose this piece of legislation and urges this committee to recommend a "DO NOT PASS."

Table 1. State 1/ average annual pay for 2000 and 2001 and percent change in pay for all covered workers...

News
Bureau of Labor Statistics

United States
Department of Labor
Washington, D.C. 20212

Home | Programs & Surveys | Get Detailed Statistics | Glossary | What's New | Find It! In DOL

W Home

OTHER AVAILABLE ECONOMIC NEWS RELEASES

Table 1. State 1/ average annual pay for 2000 and 2001 and percent change

Table 1. State(1) average annual pay for 2000 and 2001 and percent change for all covered workers(2)

State	Average annual pay(3)	
	2000	2001
UNITED STATES(4)	\$35,320	\$36,214
Maryland.....	36,395	38,237
Massachusetts.....	44,168	44,976
Michigan.....	37,011	37,387
Minnesota.....	35,414	36,585
Mississippi.....	25,208	25,919
Missouri.....	31,384	32,422
Montana.....	24,272	25,194
Nebraska.....	27,693	28,375
Nevada.....	32,277	33,122
New Hampshire.....	34,736	35,479
New Jersey.....	43,676	44,285
New Mexico.....	27,498	28,698
New York.....	45,358	46,664
North Carolina.....	31,068	32,026
North Dakota.....	24,683	25,707
Ohio.....	32,508	33,280
Oklahoma.....	26,988	28,020
Oregon.....	32,776	33,203
Pennsylvania.....	34,015	34,976
South Carolina.....	28,179	29,253
South Dakota.....	24,802	25,600
Tennessee.....	30,557	31,491
Texas.....	34,943	36,039
Utah.....	29,229	30,074
Vermont.....	28,914	30,240
Virginia.....	35,172	36,716
Washington.....	37,099	37,475
West Virginia.....	26,888	27,982
Wisconsin.....	30,694	31,556
Wyoming.....	26,836	28,025

<http://stats.bls.gov/news.release/annpay.t01.htm>

3/11/03

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Deanna Waller
Operator's signature

10/22/03
Date

**TESTIMONY
AMENDED SENATE BILL 2314
MARCH 12, 2003**

- Mr. Chairman, members of the House Finance and Taxation Committee my name is Bob Lamp representing the Automobile Dealers Association of North Dakota and the North Dakota Implement Dealers Association in opposition to two sections of Senate Bill 2314 as amended.
- The first concern we have with the bill, on behalf of the North Dakota Implement Dealers Association, relates to the $\frac{1}{2}$ % sales tax increase on farm machinery for the last six months of the 2003-2005 biennium found in Section 2, subsection 2. Our concern is twofold:
 1. A tax increase on large ticket items has the potential of affecting buying decisions since producers can easily purchase their new farm machinery in Montana, Minnesota or the Canadian provinces that do not impose any tax on new farm machinery.
 2. An interim tax increase will certainly be a detriment to buyers during the period of the tax increase. It is possible that purchases of large ticket items like new farm machinery could come to a standstill during this higher tax period. Or worse yet, see concern number 1.
- Our second concern relates to Section 6, which repeals the vendor allowance for monthly sales tax filers. The presumption is that this will only affect the very large retailers. However, the \$333,000 threshold of total sales brings many small retailers under this monthly tax filer system.
- This vendor allowance, according to the sections being repealed, is designed "...to reimburse retailers for expenses incurred in keeping records, preparing and filing returns, remitting the tax, and supplying information to the commissioner upon request". With the advent of city and county sales taxes, this process has become more time consuming for retailers, especially those who do business with customers from different geographical areas.
- In our opinion, using the repeal of this vendor allowance to make Senate Bill 2314 revenue neutral is certainly unfair to those retailers who are providing this valuable service to the state.
- The ADAND and NDIDA respectfully request this committee make changes in Senate Bill 2314 which address these concerns.

Robert L. Lamp
Automobile Dealers Association of North Dakota
North Dakota Implement Dealers Association

Deanna Hallmark
Operator's Signature

10/22/03
Date

Handed in after the hearing

Senate Bill No. 2314 Testimony
By Glen E. Baltrusch
Before the House Finance and Taxation Committee
Fort Totten Room – North Dakota State Capital
Wednesday, March 12, 2003, 9:00 A.M.

Mr. Chairman, Members of the Committee:

My name is Glen Baltrusch, and I appreciate having the opportunity to address you. I have been a resident of the great state of North Dakota most of my life beginning at birth. Because of accidental injuries that have caused me to be permanently disabled, I have spent a fair amount of time here during the last several legislative sessions. Today I stand before you in support of *Senate Bill No. 2314*, of which I am offering a proposed amendment and which I urge your support and adoption.

Over the last number of years the economy of North Dakota clearly has not been moving in a positive direction, as each of us have observed. The "Youth Initiative" that was placed on the 2002 general election ballot should more than have sounded the alarm that this august body must not only take major steps to make changes, but must enact those required changes. One of those changes required by the *Fifty-eighth Legislative Assembly* is enactment of *Senate Bill No. 2314*; the repeal of the income tax.

Mr. Chairman and Members of the Committee, I have provided you with the **Proposed Amendment To Engrossed Senate Bill No. 2314 – Introduced Senate Bill No. 2314** – in its entirety. Enactment of *Introduced Senate Bill No. 2314* abolishes the income tax and provides for a positive change of direction that is sorely needed for the state of North Dakota and its citizens. Period. Once enacted by the *Fifty-eighth Legislative Assembly*, North Dakota will then have provided real change for true economic development and eliminated an unjust form of taxation, the income tax. Both are reason alone for adoption of the proposed amendment, "*Introduced Senate Bill No. 2314*" into *Engrossed Senate Bill No. 2314* with a "DO PASS" recommendation from this committee, with what should be an overwhelming passage on the floor by both parties, in both Houses.

In order to revitalize the economy of North Dakota requires stepping out the box and providing bold new thinking and acting on new initiatives. *Introduced Senate Bill No. 2314* provided that first bold step forward for true economic development and to create an expanding economy, not today's current failed policy of "*corporate welfare, a.k.a. economic development*" which has been adopted and is currently in practice by all levels of government in this state. Today's practice of economic development is nothing more than "*Robin Hood in reverse*" as it takes from the poor and gives to the rich, and has not provided for a growing and prosperous economy within the state of North Dakota, but just the opposite. It has only provided for the out-migration of hard earned money of the citizens of this state, which include the elderly and the poor; created unjust competitive advantages and business practices against established businesses; continued the out-migration of its citizens; and provided nothing more than poverty level employment. Enactment of *Senate Bill No. 2314* provides for an incentive to lure manufacturing and service businesses; eases the tax burden and provides incentives for new business start-ups; and allows people to keep more of their money to spend it as they see fit, which provides for true economic stimulation by demand.

Other issues must also be addressed in regards to *Senate Bill No. 2314*. The implementation of this legislation amended to its original form "*is not a regressive tax*" nor is it legislation to tax the poor. I am the poor and indigent, attempting to live on a small pittance that I receive from Social Security Disability Insurance because of being disabled from an accidental injury in the course of employment, which by authority and statute I am supposed to be receiving wage loss benefits from North Dakota Workers Compensation Bureau, an adversarial governmental entity. Failure of the *Fifty-eighth Legislative Assembly* to adopt and enact *Introduced Senate Bill No. 2314* provides for the continuing "*tax on labor*"; a continuation the "*regressive tax*"; and provide and require further "*taxes on the poor*". North Dakota cannot continue the down-hill-slide that has been occurring over the last number of years without disastrous results.

Until the North Dakota Legislature steps out of the box and bucks the status quo with initiatives that provide the required changes needed for prosperity in North Dakota, the citizens of this state will be forced to comply with two factors that will occur; higher taxes and the loss of services that are currently provided within the state of North Dakota. It will be the remaining residents and businesses of this state who will bear the burden of taxation under the current inequitable tax

system, and that includes the elderly and the poor. North Dakota needs and requires an expanding economy if it is to survive. The adoption of the proposed amendment *Introduced Senate Bill No. 2314* into *Engrossed Senate Bill No. 2314* and enactment must occur immediately for the benefit of North Dakota.

Mr. Chairman, Members of the Committee, we all know that *Senate Bill No. 2314* is not the cure-all bill that will provide for an overnight economic boom, which is not right or of benefit to any state, but it is the right idea, at the right time, for all the right reasons. *Senate Bill No. 2314* provides the needed tax reform for the citizens of North Dakota; its an incentive for businesses to locate, start-up, and expand within North Dakota; and provide for an expanding and prosperous economy within and for North Dakota. The adoption of *Introduced Senate Bill No. 2314* amendment into *Engrossed Senate Bill No. 2314* is not "regressive" but "progressive". Remember, economies are not static - they are dynamic. I urge your support for adoption of the proposed amendment to *Engrossed Senate Bill No. 2314* and cast your vote for a "DO PASS" recommendation to the floor of the House for enactment.

Thank you for your time and consideration of this pertinent legislation before you. I will attempt to answer any questions you may have.