

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1471

2005 HOUSE FINANCE AND TAXATION

HB 1471

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1471**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **January 24, 2005**

Tape Number	Side A	Side B	Meter #
1		x	2.1
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

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

REP. SCOT KELSH, DIST 11, FARGO Introduced the bill. The bill is an incentive to help employers to help their employees' child care costs. Whether it be an onsite facility or an offsite facility with which the employer contracts. The economic development interests can use this as a business recruitment tool, businesses can use it as a employee recruitment tool and parents are afforded piece of mind in knowing their children are in good hands while they are at work. A credit of this type was enacted into federal law in 2001, as part of the 2001 economic growth and tax relief reconciliation act. We think it would be prudent to do this in the state of North Dakota.

REP. BELTER As policy makers, you are asking the state to give a tax credit, to those businesses, that set up a child care service. Does this bill give any benefit to parents who are not involved with a company that is getting this child care credit?

REP. KELSH In light of your concern last time, we did draft an amendment, and it is incorporated in subsection 2 of section 1 of this bill. This states that employers not entitled to the credit, under this section, unless the employer offers a benefit of comparable worth to his employees who do not use the child care program.

REP. BELTER Is that benefit only available to an employee that uses this credit. What about a company that doesn't use the credit, are those parents in any way benefitted by this bill?

REP. KELSH Obviously, no, they are not benefitted by the bill. It is up to the employer to take advantage of that credit.

REP. BELTER Is there any place in this bill, where parents do not use child care credit, but have children of that age, is there any benefit in this bill for those parents?

REP. KELSH There is not a benefit in this bill for parents who choose not to use the child care facility. Tax policy is invariably unfair, I could site several examples where if you were a business just outside a renaissance zone, you were unable to take advantage of a credit, and therefore, had a competitive disadvantage as they were not in the renaissance zone.

REP. DROVDAL They get a credit for the child care program, and they also get a credit for the program they will offer to employees who choose something of comparable worth. Do they get a credit for both?

REP. KELSH As I understand the provision of the bill, the tax credit applies per employee. If an employee chooses not to take advantage of the child care, the employer will still be able to take a credit for that employee, but not be able to double dip.

REP. DROVDAL They get a credit for the child care program, but do they also get a credit for the value of the other program they have to offer?

REP. KELSH The employer gets one credit, they either offer the child care reimbursement for the employee or ??

REP. DROVDAL What is the amount of that credit?

REP. KELSH There are some questions about that subsection of the bill, and I think the tax department may have a better answer for you. As the bill is now, the credit for the child care portion, reflects the federal law.

REP. SCHMIDT If the employer donates five hundred dollars to a child care center, is that tax deductible?

REP. KELSH It is on the federal level, but not on the state level.

BARB ARNOLD-TENGESDAL, EXECUTIVE DIRECTOR, VOICES FOR NORTH

DAKOTA'S CHILDREN. Testified in support of the bill. See written testimony.

REP. BELTER I would assume in North Dakota, there are a lot of neighborhood day cares, or the next door neighbor who takes care of a couple children for friends of theirs, how would they be impacted by this?

BARB ARNOLD-TENGESDAL This bill is only responding to an employer supporting a worker. It is not responding to the worker, choosing the type of child care. If I am a worker in that business who offers this type of service, or this type of support, maybe what ends up happening, as an employer, I provide a flexible plan benefit for my employees. They can have a pretax flex plan program, where I can choose the child care program I am working with, and then figure out how that works in my benefits. There are many ways. This is not requiring the business to tell the worker what type of child care program they need to use.

REP. BELTER If we pass this bill, and a parent's company falls under this, they take their child to the grandmother, under this bill, or that company get some benefit because the grandmother is taking care of the children?

BARB ARNOLD-TENGESDAL No this bill wouldn't, but there is a great bill on the senate side, which would support those families. It is SB 2055. That would address what you are talking about.

REP. BELTER In that senate bill, do they give a credit for parents who don't use child care facilities?

BARB ARNOLD-TENGESDAL It could be used however that family wants to use it to meet their child care needs. They just need to report how much they spent. If they paid their grandparent, or their neighbor, they can get reimbursed for a percentage of that, based on their income.

REP. BELTER If they choose not to use child care, then what is their benefit?

BARB ARNOLD-TENGESDAL They wouldn't need to take a credit for child care, they are choosing not to work?

REP. BELTER There are parents with children who do work, and there are parents with children who do not use child care, the hangup I have is, the parents who decide to not use day care are taking a reduction in income, yet, they are asked to pay the taxes, to support programs like you are asking for here. That is my problem with this type of legislation.

REP. DROVDAL I take it, you perceive this bill to encourage businesses to set up child care in house in order to provide for their employees. But, you also said in your talk, that those parents

can go where they choose to. I read that to say, an employer could give a before tax dollar amount to be used to pay for off facility child care, not just in house?

BARB ARNOLD-TENGESDAL I don't read it that way, a business could contract with another day care, and that is what they would use for their child care.

REP. CONRAD We have tried that in Minot, why does a North Dakota company not take advantage of the federal tax?

BARB ARNOLD-TENGESDAL It is mostly an ideology about supporting families child care needs. I don't think it is a size issue. We have seen smaller programs provide flex plans and other types of family friendly child care benefits. There is an option in this bill to be very creative. I think we have to support families and businesses together to keep people productive in the workforce.

REP. CONRAD Do we really need a tax credit to get them encouraged?

BARB ARNOLD-TENGESDAL There are very few programs doing this. Yes, we do need a tax credit as an incentive. We know it is a step in the right direction in communities.

COURTNEY KOEBELE, ON BEHALF OF THE YMCA's Testified in support of the bill.
See attached written testimony.

REP. DROVDAL I understand the YMCA offers a day care for parents who bring their children in, if this is passed, those parents are encouraged more to go to their employer's day care center, is that right?

COURTNEY KOEBELE That is one option, I think what will be happening is that employers will be contracting with the YMCA to provide day care. It really isn't feasible, to have outside day care.

REP. DROVDAL There are day care homes on just about every block in Bismarck, how will it effect those people?

COURTNEY KOEBELE It is possible people wouldn't go to the home day care people, if their employer is helping them pay for day care. I am not familiar with the background. It is possible, that a home day care could qualify.

JOSEPH BECKER, STATE TAX DEPARTMENT Explained how the tax credit will work in this bill. He stated that in subsection 1 of the bill, if you qualify for the federal employer child care credit, then whatever that amount is at the federal level, that becomes your state credit. At the federal level, there are two catagories of expenses that an employer can run into. One, would include the building or facility, operating costs of the facility, and they could contract with an outside licensed child care facility. The employer gets twenty five percent of those expenditures up to a ceiling of one hundred fifty thousand dollars per year. The other category of expenditures would be what they call, referral services, I am not exactly sure what is contained in that, but the employer could pay to help their people find child care services, then they can take ten percent of whatever those costs are toward that one hundred fifty thousand dollar ceiling. If they qualify for the federal credit, those are the amounts they can qualify for, then in turn, that becomes the amount of their state tax credit.

REP. BELTER It is an actual dollar for dollar offset. If the company spent one hundred thousand dollars on child care, they could take twenty five thousand off of their tax liability.

JOSEPH BECKER That is correct.

REP. DROVDAL If a company spent one hundred thousand for child care, they would be able to deduct that off of their general expenses to get to their profit, when they come to do their income tax, they would get another twenty five thousand off their tax liability to the federal government, and if we pass this, they get another twenty five thousand off of the state income tax?

JOSEPH BECKER At the federal level, there are some limitations, the employer would have to lose some benefit of basis or cost in what they can depreciate. If you take a credit, you may lose some deductability. The employer will take the deduction for whatever expenses they can, relative to the child care facilities, they will get the federal credit within the limitations I mentioned, and at the state level they could take an offsetting tax credit against the state liability.

REP. DROVDAL Is that the same amount they can take off.

JOSEPH BECKER The dollar amount that they are entitled to take a credit for the federal level, becomes the dollar amount they can take off the state return. It is equal.

REP. BELTER Related to Section 1, number 2, how does the tax department interpret if an employer sets up a program and has a cafeteria type selection of benefits, and one of them is the day care center at the corporation, what if a parent decides not to use that day care, could that corporation say, in lieu of using our day care, because your children are at home, we are going to pay you two hundred dollars per month, could they do that under this bill?

JOSEPH BECKER We have some questions relative to subsection 2, as to how it is to be administered, the provision states that they have to offer a benefit of comparable worth to others who aren't using the child care. Our concern from the department, is how are you going to

measure that. Are we assuming that every employee using the child care center is getting the same benefit, or are we going to aggregate that. We don't know how that is defined and how they will measure it, will it be taxable or nontaxable.

REP. BELTER If an employer had this program, could an employee who does not have children, say to his employer, what have you got for me because I don't have children?

JOSEPH BECKER The provision states that the employer is not entitled to the credit, unless the employer offers the benefit. How we will administer that, I am not sure. If there is a problem from an employee that the employer is not doing something, I guess our position is, we have to disallow the credit to the employer.

With no further testimony, the committee hearing was closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1471**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 1, 2005**

Tape Number	Side A	Side B	Meter #
1		X	11
Committee Clerk Signature			

Minutes:

COMMITTEE ACTION

REP. GRANDE Made a motion for a **do not pass**.

REP. BRANDENBURG Second the motion. **MOTION CARRIED**

9 YES 4 NO 1 ABSENT

REP. GRANDE Was given the floor assignment.

FISCAL NOTE
Requested by Legislative Council
01/18/2005

Bill/Resolution No.: HB 1471

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 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.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

HB 1471 authorizes a corporate and individual income tax credit for employers for contributions or support for child care programs.

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.*

The fiscal impact of HB 1471 cannot be determined. The credit is equal to the federal child care credit, and we were unable to locate information on the use of the federal credit by North Dakota employers. The provisions of the bill further limit the credit to those employers who offer benefits of comparable worth to employees who do not use the child care benefits. This provision would likely contribute to limiting the negative fiscal impact of HB 1471.

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:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/21/2005

Date: 2-1-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1471

House FINANCE & TAXATION

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Not Pass

Motion Made By

Rep. Grande

Seconded By

Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI		✓			
FROELICH, ROD		✓			
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	A				
KELSH, SCOT		✓			
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO		✓			
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes)

9

No

4

Absent

1

Floor Assignment

Rep. Grande

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

REPORT OF STANDING COMMITTEE (410)
February 1, 2005 11:57 a.m.

Module No: HR-21-1529
Carrier: Grande
Insert LC: . Title: .

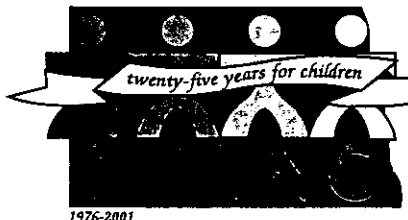
REPORT OF STANDING COMMITTEE

HB 1471: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). HB 1471 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1471

VOICES FOR NORTH DAKOTA'S CHILDREN



CENTER FOR EARLY CHILDHOOD LEADERSHIP & ADVOCACY

To: Wesley Belter, Chairman, House Finance and Taxation Committee

From: Barb Arnold-Tengesdal, Executive Director, Voices for North Dakota's Children

Date: January 24, 2005

Re: Testimony in support of HB 1471

Voices for North Dakota's Children is a collaborative advocacy effort of early childhood education professional organizations. It is made up of the North Dakota Head Start Association, North Dakota Association for the Education of Young Children, Child Care Resource & Referral Network, Children's Caucus, North Dakota Professional Development leadership team and Early Childhood Higher Education consortium.

We urge your support of HB 1471 because it is good for children. It is good for working families. It is good for communities. It is good for state economic development. It is good for businesses.

Economic development efforts will not be successful without community infrastructure to support the needs of employees. Child care is a fundamental component for job development in both rural and urban areas of our state (*A Rural Road: Exploring Economic Opportunities. The Great Plains Collaborative Project- North Dakota Data Center 2001*). North Dakota is second in the nation with two parents working. These families often are piecing together several low wage jobs. Child care can be a substantial expense for these households.

In the past two legislative sessions we've brought forth this same bill knowing it would be an important part of the entire economic development picture in North Dakota. We used data and research comparing our state to others that had similar demographics. We now have a report recently released by the NDSU Data Center entitled the ***Economic Impact of Child Care in North Dakota*** (October, 2004) that examines the impact of which a small investment, as suggested in this bill, will have on the entire economy of North Dakota. What we know is:

Child care is a significant industry

- Child care is the 10th largest occupation in North Dakota employing over 6,000 residents
- More than \$123 million in revenue was generated in the child-care industry alone

Child care indirectly contributes significantly to North Dakota's economy

- Every new dollar spent on child care creates an additional \$0.53 in economic activity
- For every 100 jobs created in the child-care industry, 31 other jobs are spun off in other industries

Child care has major effects on North Dakota's economy

- Nearly \$47 million in federal monies were allocated to North Dakota to support children's care and development
- Each additional dollar contributed to child care in North Dakota by the federal government generates \$0.86 more in economic activity throughout the state

Child care increases household income and enables parents to work

- More than 17,000 families rely on paid child care in North Dakota
- North Dakota families using child care earn more than \$743 million annually

The direct, indirect and induced economic impact of the child care industry in North Dakota is monumental. Revenues from child care were comparable to the gross state product generated by coal mining, motor vehicle equipment manufacturing, and insurance agents, printing & publishing and legal services (page 6, Economic Impact of Child Care in North Dakota, 2004).

A study done in 2002 by the National Women's Law Center showed 28 states have enacted employer tax credits for child care. The fiscal impact on states has been far less than expected for several reasons. Many corporations have little state tax liability to apply against a credit. In 16 of 20 states that were studied, five or fewer corporations claimed the tax credit. In 5 of the 16 states, no corporations claimed the credit. So why do it? If it is taken by businesses, the tax credit has a significant impact on families. We believe even one business in a rural area will make a significant difference to the community. There are several on-site child care programs working in our state, making a difference in the recruiting and retention of workers to those businesses. The policy recommendations from the study suggest that tax credits such as this one will be a step in the right direction and will have a greater revenue gain than the tax loss to our state.

HB 1471 will:

- Give parents more choices of quality, reliable child care that they can afford.
- Increase worker productivity due to fewer child care disruptions and higher moral among employees.
- Encourage employers to offer benefits to attract and retain a young workforce.
- Give North Dakota a competitive edge in economic development with other states who offer child care incentives.
- Create business and community partnerships that will strengthen the child care infrastructure.
- Create more child care openings in much needed areas of the state.

Grow North Dakota.... Invest in Children.

Child care keeps families working!

January 24, 2005

HOUSE FINANCE & TAXATION COMMITTEE HB 1471

REPRESENTATIVE BELTER AND COMMITTEE MEMBERS:

My name is Courtney Koebele. I am appearing today on behalf of the YMCAs of North Dakota. We strongly support HB 1471 and urge your favorable consideration.

Day care needs are growing in North Dakota beyond anyone's comprehension. In Bismarck, the YMCA two years ago completed a multi-million dollar addition to its building primarily designed for day care for infants and toddlers as well as other youngsters. The addition has been full from the day it opened and we currently have a waiting list for enrollment.

This type of legislation has been successful in other states. It proves helpful to employers, since it makes it easier for them to recruit and keep a happy, productive workforce. It helps families, since it allows varied work schedules. And, it helps children find a better and more structured care environment than simply having a babysitter coming into the home.

The Tax Department was unable to produce a fiscal note because of the uncertainties involved with this proposal. I don't believe you will see a mad rush of employers using this tool. Rather, it will be used selectively as employers see how it will assist them and their employees.

We respectfully urge a "do pass" from this committee.

If you have any questions, I'd be glad to try to answer them. THANK YOU FOR YOUR TIME AND CONSIDERATION.