



OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

Cory Fong
TAX COMMISSIONER

July 25, 2008

The Honorable Tony Grindberg
Chairman, Interim Workforce Committee
600 E Boulevard Ave
Bismarck ND 58505

RE: Tax Incentives for Workforce Development and Talent Recruitment and Retention

Dear Senator Grindberg and Members of the Interim Workforce Committee:

Thank you for your invitation to address the Interim Workforce Committee and comment on tax incentives aimed at workforce development and talent recruitment and retention. I also appreciate being given this opportunity to share my thoughts about the report prepared for your committee by Thomas P. Miller and Associates, *Workforce System Policy and Implementation Options and Recommendations*. Under normal circumstances I would have gladly appeared before your committee in person but my schedule does not permit me to attend.

The Office of State Tax Commissioner worked closely with the Business Congress and the Interim Industry Business and Labor Committee during the 2005-07 interim to develop a number of tax-related proposals aimed at growing and expanding our state's economy and enhancing its workforce. Two of those initiatives, which were proposed by the Office of State Tax Commissioner, were approved by the Legislative Assembly and signed by Governor Hoeven. Those initiatives include the Workforce Recruitment Tax Credit and the Internship Tax Credit.

Workforce Recruitment Credit

Background

The Workforce Recruitment Credit is available to an individual, estate, trust, partnership, corporation, or LLC and is an income tax credit for employing extraordinary recruitment methods to recruit and hire employees for hard-to-fill positions in North Dakota. The credit is equal to five percent of the compensation paid to an employee for the first 12 consecutive months the employee is employed in the hard-to-fill position. The credit can be claimed in the first year following the year in which the employee completes the 12 consecutive month employment period. Any unused credit may be carried forward up to four years.

To be eligible for the credit, the employer must have been unable to fill the position for a period of six consecutive months. The employer also must pay an annual salary for the hard-to-fill position that is at least 125% of North Dakota's average wage. In addition, the

employer must have used all of the following recruitment methods to fill the position for which the credit is claimed: (1) contracted with a professional recruiter for a fee; (2) advertised in a professional trade journal, magazine, or other publication directed at a particular trade or profession; (3) provided employment information on a web site for a fee; and (4) paid a signing bonus, moving expenses, or nontypical fringe benefits.

A benefit is also provided to the employee who is recruited and hired for the hard-to-fill position. If the employer claims this credit, the employee is allowed an income tax deduction on the employee's North Dakota income tax return for any signing bonus, moving expenses, or nontypical fringe benefits paid by the employer.

The 2008 income tax year will be the first tax year in which employers may claim the credit due to the requirement that an employee complete twelve consecutive months of employment prior to an employer being able to claim the credit.

Possible Expansion and Improvement

Although we do not yet have data on this program, I have heard from many workforce professionals and employers on the workforce recruitment credit for hard-to-fill positions, particularly the requirement that to be eligible for the credit, all of the recruitment methods must be used by the employer. In other words, an employer would be eligible to claim the credit if they employed two or three of the four identified recruitment methods, rather than all four. This is one possible improvement to the program that I am currently aware of, and even though it would increase the fiscal impact, it is an area of this credit that deserves further review.

Internship Employment Credit

Background

The Internship Employment Credit is available to an individual, estate, trust, partnership, corporation, or LLC and is an income tax credit for employing an individual under an internship program located in North Dakota. The credit is equal to 10 percent of the compensation paid to an intern. The compensation paid to no more than five interns working at one time is eligible for the credit. An employer is allowed a maximum of \$3,000 in credits for all taxable years combined.

To be eligible, an intern must be a college student majoring in a field related to the work to be performed, must be supervised and evaluated by the employer, and the internship must qualify for academic credit. Participation in a vocational technical education program meets the college requirement.

Possible Expansion and Improvement

One way to significantly expand and, in my opinion, improve the program would be to allow the credit for those employers with apprenticeship and journeymen-kinds of work arrangements. Given the state's need for skilled labor, especially in light of the current energy boom occurring throughout the state, it only makes sense to expand this program to

encourage businesses to develop successful apprenticeship and journeymen programs as a part of their workforce development and recruitment strategy.

Another way to expand the Internship Employment Credit would be to raise or remove the lifetime cap of \$3,000. Raising or removing the cap entirely would certainly come with a price tag. It may be a price tag worth considering if it encourages more businesses to develop internship programs as a part of their long-term workforce development and recruitment strategy.

Jobs Training Assistance

Background

The New Jobs Training from Withholding program has long provided assistance to new and expanding primary sector businesses in training their new employees. The cost of the training under the program is paid for in whole or in part with the income tax withheld from the new employees. The New Jobs Training from Withholding program is jointly administered between Job Service North Dakota and the Office of State Tax Commissioner.

The program has been an important and valuable program to employers and employees that continues to play an important roll in addressing the state's workforce development challenges.

The program deserves continued support.

I also reviewed the report prepared for your committee by Thomas P. Miller and Associates. The report outlines a number of initiatives that cut across a number of policy areas, including tax incentives, aimed at enhancing and expanding the state's workforce and talent recruitment and retention efforts. Please note that some of the tax-related proposals, which are outlined below, have been considered by previous North Dakota Legislative Assemblies:

- **Retain Talent North Dakota (RTND)** initiative offers a tax credit each year for up to ten years to help students pay back their student loans.
- **Talent Relocation Incentive** allows out-of-state workers who relocate to North Dakota to work in a defined target industry sector to avoid paying income taxes for the first three years of their employment in North Dakota.
- **An Employer-Provided Childcare Tax Credit** would allow a share of costs associated with employer-provided childcare to be deducted from the employer's tax liability.
- **Automation Investment Tax Credit** encourages the expansion of existing operations through technology upgrades of machinery and equipment by offering an income tax credit for a manufacturer that purchases new machinery and equipment.

While the Office of State Tax Commissioner has not had a chance to carefully or thoroughly analyze these tax proposals in depth, please know that we stand ready and willing to assist you and the Interim Workforce Development Committee in working through the finer details and

fiscal impact of the proposals as well as any others that may be considered by your committee and the Legislative Assembly.

Please consider that several tax incentives already exist to encourage automation investment. For example, there are several sales tax exemptions available to new and expanding businesses depending upon the scope of the project, to include:

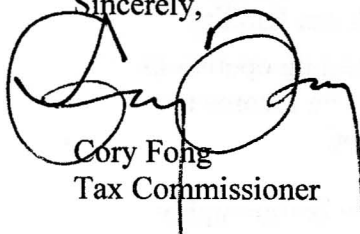
- Manufacturing Equipment;
- Ag Commodity Processing Plant Equipment and Construction Materials;
- Computer and Telecommunication Equipment;
- Electrical Generating Facilities;
- Gas Processing Facilities;
- Oil Refineries;
- Biodiesel Equipment;
- Carbon Dioxide for Enhanced Oil and Gas Recovery; and
- Hydrogen Generation Facilities.

An income tax exemption of up to 100% for up to 5 years is available for new and expanding primary sector businesses. In addition, investment tax credits are available to individuals, estates, trusts, partnerships, corporations, or LLCs that invest in certified seed capital businesses, Angel funds, agricultural commodity processing facilities, and micro businesses.

I have included a copy of North Dakota Tax Incentives for Businesses, a booklet published by the Office of State Tax Commissioner that outlines in more detail these and the many other state tax incentives available to businesses. As you and your committee consider the tax-related proposals contained in the report from Thomas P. Miller and Associates, I hope you will consider the many existing tax incentives that are aimed at business development and workforce enhancement.

Thank you for your invitation to address your committee. The growth of North Dakota's economy strongly depends on our ability to grow our workforce. Addressing these challenges head on may result in the greatest opportunity for expansion that our economy has seen in recent history. As Tax Commissioner, I look forward to assisting you and your committee in developing creative solutions for addressing these challenges.

Sincerely,



Cory Fong
Tax Commissioner

cc: Jennifer Clark, Legislative Council
Enc. North Dakota Tax Incentives for Businesses