

2009 HOUSE FINANCE AND TAXATION

HB 1190

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1190

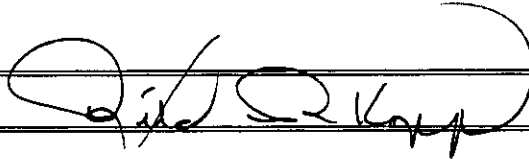
House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 14, 2009

Recorder Job Number: 6957

Committee Clerk Signature



Minutes:

Chairman Belter: We will open the hearing on HB1190. Representative Dosch.

Representative Mark Dosch, District 32: Do we want the people in non-public education to keep paying or do we want the state to pick up 100% of the tab for education? I will entertain any questions if you have any.

Representative Winrich: The tax credit is specific to institutions of higher education or secondary education. In your testimony, you referred to all of K-12 non-public education. Is it your intention to include elementary schools as well or is the limitation to secondary schools appropriate?

Representative Dosch: We are not proposing to make any change at this point. We simply want it transferred from the long to the short form. There is a list in the Tax 1 now of specific schools and institutions that are covered on that. It would be those same ones. One thing to keep in mind when we talk about this is—let's use St. Mary's, for example, which is included in here. If it gets to the point where St. Mary's can no longer make it and they have to close their doors as a high school, what are going to be the effects on grade school kids in town? (There are three Catholic grade schools in town.) If St. Mary's is no longer around, are parents going to want to send their kids to private grade school if they can't go to a private high school?

Probably not. They will also convert to the public school systems. That is why we have to take a look at the whole picture. If part of the system starts crumbling, I think we will see it all go.

This committee will see a couple of other bills that deal with endowment funds and stuff like that which will help the whole picture and all the students in non-public education. I encourage you to give those your favorable review as well.

Representative Pinkerton: I was on the public school Board and I understand the cost of running schools. In some form I can certainly support this bill, but I don't know if we are on the same page when we talk about what kind of benefit you receive from property taxes. You are an employer and when you hire employees, you want them to be educated employees and your property taxes help pay for that education. When you go to the store and deal with a clerk, wherever you go, just because you didn't receive value with your children doesn't mean that all of us didn't receive value. Just as I receive value from kids educated in private schools and people without children receive value from education. I do support some sort of credit for schools. It does seem like a lot of money goes out, but I would certainly appreciate that when you talk about value, you talk about the value of all education. It seems like this could be amended to take that non-private out and make it available so somebody could make a gift to any school, public or private. I couldn't find the list, but I could support extending that to K-6 also. All schools need help.

Representative Weiler: Have you kept any numbers on charitable contributions on the long form? How many people have taken advantage of that?

Representative Dosch: Rod Backman is going to be coming and I believe he has the answers on that.

Representative Brandenburg: I know you have worked the numbers on this as a member of the Board of Education and we could probably save money because if they leave private

schools and have to go to public schools, we are going to have to have more money for foundation aid. That will create exactly the problem you say. There is a balance in place right now with so many public schools, so many private schools. You know the numbers about what the tax credit would offset. I actually think the tax credit would be less than what foundation aid would be. I know it is.

Representative Dosch: You are absolutely right. Rod Backman will have some additional numbers; but in Bismarck, we are at capacity in our high schools. Should something happen to St. Mary's, we are talking about an influx of 300 to 350 students at a cost of \$8,000 per student. The impact on Bismarck is in the millions alone. They would have to build another school. It is an incredible deal for the taxpayers of ND to give a little bit to save a lot of money.

Chairman Belter: Further testimony in support of 1190?

Rod Backman: I am here representing the **University of Mary and Jamestown College.**

Testimony 2) Briefly this is capped at a \$500 donation, 50% of the donation can become a credit which comes off the tax bill for the individual donor. The **back page of my testimony is a list of the schools** that can receive the credit. The college credit was only claimed by 9 taxpayers and the high school credit was only claimed by 10 taxpayers. That is an average per year.

Chairman Belter: Under the rules of this, can this donation be considered part of tuition?

Rod Backman: No, only contributions that qualify on your IRS provisions of your tax return and tuition would be included here. This is a long-term credit that goes back at least into the 1970s and maybe earlier. It is fairly well established that it is a charitable contribution and tuition would not qualify.

Representative Froseth: Is there a maximum limit on this tax credit? Is it on a yearly basis?

Rod Backman: Yes, it would be capped at \$500 donation per year so the credit would be capped at \$250 on your tax return.

Representative Pinkerton: Did they run the numbers if you double that to \$1000? It wouldn't double the fiscal note cost, would it?

Rod Backman: No, it shouldn't double because a lot of donations are under \$500 now. The question in the fiscal note is how much will contributions increase if the bill passes? That is somewhat of a guess. The Tax Department took a survey of current numbers and bumped it by 20% a year. If it went to \$1000, it shouldn't double the fiscal note because there are a lot of contributions that are under \$500 now.

Representative Winrich: This is a charitable contribution so in the computation of your taxable income, it would be deductible and come off the income. Is that correct?

Rod Backman: That is correct. It gets a little more complicated when you file your federal return, assuming you itemize your deductions. If you do, that would flow over to your ND return and you would have the deduction. In addition to the deduction, it would qualify for this state credit. Some people who itemize their deductions are going to get an even larger benefit than \$250 out of the \$500 gift.

Representative Headland: I am looking at the ND-1 Form and line 13 of subtractions/college save amount deduction. I am assuming that is college tuition deductible from the tax form?

Rod Backman: I am sorry. I don't know what that is.

Representative Brandenburg: How much would it cost the state if St. Mary's decided to close down and the kids were all transferred to the public school system. Give me a projection.

Rod Backman: I would be happy to. When I did the computation for the comparison of 42 students and 27 students, (I will point out that on the higher ed figure, I just took the whole budget and divided it by the head count of students to come up with the number). That isn't 100% accurate because if you move ten students in, they are not necessarily going to increase the cost. However, on the K-12 funding, where it is a per pupil payment, that would be exact in that if you add ten students into the public system, the state will get a bill for ten times whatever the foundation aid formula is. I think it is \$3500 or \$3600 right now. Especially on the K-12, it would be very easy to do.

Chairman Belter: Any other questions? Any other testimony in support of 1190?

Mike Schmitz: (Testimony 3)

Chairman Belter: Any further testimony in support of 1190?

Ross Reinhiller, Administrator, Shiloh Christian School: (Testimony 4) Thank you for this opportunity to talk on this important reassignment of the tax credit from the ND long form to the short form. I am appreciative of North Dakota's support in giving this tax credit. I am also grateful to this committee in making the tax credit more accessible. Today you will hear about issues that will show the big picture of this tax credit and how it will affect education on a grander scope. I will share what this change will mean in one school. Shiloh Christian School is a small Class B school with about 304 students. There are 38 first year students and we have graduated about 300 students since 1981. We are about the same size as South Heart or Ashley, ND, in terms of their school systems. We estimate that this year Shiloh saved the ND taxpayer about \$3,309,000 according to (inaudible) report. According to Representative Dosch, it would be about \$2,432,000. This was estimated either on the figure of \$8,000 per student or \$10,800 spent for the education of a student. According to the 2009-2010 budget adopted by the Shiloh School Board, the cost of educating a child at Shiloh is about \$5,797.

We make every effort to see that everyone who wants a Christian education receives one.

Because of this commitment, Shiloh provides financial aid to about 45% of our student body.

This is funded through contributions from generous supporters. The amount of contributions needed to fund financial aid in our discount budget is about \$518,000 a year, about a third of our whole budget. Though Shiloh is blessed with a few payers who are in an excellent position to give large gifts, we still rely heavily on those persons who are able to give between \$100-500 per year. The moving of this tax credit from the long form to the short form would be a wonderful way perhaps to increase the number of donors who give between \$100-500. This relocation also helps our families. Understanding that it does not offset tuition, but it does help us by making financial aid and discounts available to families who cannot afford that \$5,700 it costs to educate our children. Thank you for allowing me to speak. Are there any questions?

Chairman Belter: Any further testimony in support of 1190?

John Jankowski, Superintendent of St. Mary's Central High School, President of State Association of Non-Public Schools: (Testimony 5)

Christopher Dotson, Director, North Dakota Catholic Conference: I just want to add one other factor for consideration in addition to the testimony already given. You heard about the savings our schools provide to the state and also the squeezing of the budgets of non-public schools. With regard to non-public secondary schools, I think another factor to consider is that there are direct and indirect costs associated with tuition costs that come from the state. The indirect costs, for example, are as we improve teachers salaries to compete with public schools, that puts a burden on non-public schools. In addition, members of this committee may not know; but among the states, we are probably among the most regulated non-public school system in the nation. Almost every requirement that applies to the public schools

applies to the non-public schools. That is not the case in the majority of states so whenever a new requirement is passed, new graduation requirements, those go to the non-public schools as well. That adds to our costs. We are just looking for something to help offset those increased costs.

Chairman Belter: Any questions? Any further testimony in support of 1190? Is there any opposition to 1190? Do committee members have any questions of the Tax Department?

Joseph Becker, State Tax Office: Representative Headland had asked a question regarding the college save deduction on ND-1. It is a deduction of up to \$5,000 to open a college save account at the Bank of ND to provide for college education down the road. It can reach \$10,000.

Chairman Belter: If there is no further testimony, I will close the hearing on HB1190.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1190**

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: **January 19, 2009**

Recorder Job Number: 7242

Committee Clerk Signature



Minutes:

Chairman Belter opened HB 1190.

A paper prepared by **Rod Backman**, was distributed and discussed (**Attachment 1**)

Representative Weiler: I supported some form of this bill last time and I'm probably going to support the bill this time as well. However, I'll do it based on other beliefs.

They came in with these numbers and this is nothing but a scare tactic. It shows maybe what they are saving us. Representative Dosch was saying if they close down this is what it's going to cost us. That is unrealistic.

Unknown: They didn't bring it in as a scare tactic. I was just requested to bring this in for us to look at the numbers. It does show that if you look at the "per student," it's a few students less. It wasn't meant as a scare tactic.

Representative Weiler: I didn't mean to say you were doing it. I just remember Representative Dosch said what a deal the state was getting because if all the high schools closed down this is what it is going to cost the state of ND. I went to a private high school myself and I know what parents sacrifice. This kind of stuff is really unrealistic.

Representative Drovdal: I recognize that people have the right to put their kids where they want. Private schools do a good job. I believe in some cases they do a better job than public schools depending on the student. In my area I have a private school that is doing an outstanding job. The first thing I remember is that there are 65 students in this private school. If those students, which we have all the room in the world for, would be in the public school, we would have \$260,000 more coming in to our public school. On top of that our number per student would drop and we wouldn't be penalized. So you see there is second side of this too. This is really a misleading statement.

Representative Schmidt: I agree with all that has been said. I would give those tax breaks to public schools as well. That makes it a lot more palatable for me. The private schools serve as competition to public schools. Without that competition, I think our public schools would suffer. I would look at the companion bill that gives the credit to public schools as well. I certainly think there should be caps. If they close those schools, there will be no competition. The bill as written without public schools, I really can't support it.

Representative Wrangham: We have a public school system and everybody has the opportunity or right to an accredited private school or home school that meets the guidelines. I'm not in favor of the tax credit to help them make the decision. If we really wanted to look at the issue, some sort of voucher system would be the way to go.

Representative Brandenburg: I think we need to keep in mind that the tax credit already is there. I realize the impact financially, but it's not a brand new credit.

Discussion closed.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1190

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: February 2, 2009 and February 3, 2009

Recorder Job Number: 8381 and 8498

Committee Clerk Signature

Minutes:

Chairman Belter: I have a motion for a “do pass” from Representative Brandenburg and a second from Representative Weiler. Any discussion?

Representative Pinkerton: Representative Dosch has two bills, doesn't he? He has one that is just limited to the private schools and he also has one that is not limited to private schools?

Chairman Belter: Yes, there is 1506 which we hear tomorrow. We could wait until we hear that one.

Representative Brandenburg: I withdraw my motion.

(Job 8498 begins- February 3, 2009)

Chairman Belter: Let's look at HB 1190 again, which is Dosch's credit to charitable institutions to move the credits from the long form to the short form. There are three bills dealing with similar issues, including Griffin's and Dosch's. What are your wishes on HB 1190? I have a motion for a “do pass” from Representative Grande and a second from Representative Headland. Is there any discussion? A roll call vote resulted in 5 ayes, 6 nays, and 2 absent/not voting. Representative Winrich made a motion for a “do not pass” on HB 1190 with a second from Representative Wrangham. A roll call vote

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House Finance and Taxation Committee

Bill/Resolution No. HB 1190

Hearing Date: February 3, 2009

resulted in 6 ayes, 5 nays and 2 absent/not voting (Brandenburg and Pinkerton).

Representative Winrich will carry the bill.

FISCAL NOTE
Requested by Legislative Council
01/09/2009

Bill/Resolution No.: HB 1190

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$700,000)			
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1190 allows a tax credit on the state's main individual income tax form, Form ND-1, identical to the current Form ND-2 tax credit for contributions to private nonprofit institutions of higher education and secondary education.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

A survey was conducted by an interested outside entity that attempted to establish the current level of qualifying charitable contributions that were being made to nonprofit private high schools and colleges. Using information from the survey respondents and extrapolating to the non-respondents, this individual determined an estimate of the current level of contributions.

The vast majority of current contributors are not able to claim the existing tax credit because the rates on Form ND-2 are prohibitively high. This bill moves the credit onto Form ND-1 making it available to all taxpayers.

The tax department finds this newer information from the survey is likely more complete, potentially more accurate and up-to-date than prior estimates. Therefore, it was used in estimating the fiscal impact of this bill. The tax department assumed growth in qualifying contributions of 20% per year over the current level.

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.*

If enacted, HB 1190 is expected to reduce state general fund revenues by an estimated \$700,000 in the 2009-2011 biennium.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a*

continuing appropriation.

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/12/2009

Date: 2/3/09

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1190

House FINANCE AND TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☒ Do Pass ☐ Do Not Pass ☐ Amended

Motion Made By Grande Seconded By Headland

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	/		Representative Froelich		/
Vice Chairman David Drovdal		/	Representative Kelsh	/	
Representative Brandenburg			Representative Pinkerton		
Representative Froseth		/	Representative Schmidt		/
Representative Grande	/		Representative Winrich		/
Representative Headland	/				
Representative Weiler	/				
Representative Wrangham		/			

Total (Yes) 5 No 6

Absent 2

Floor Assignment Representative

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

Date: 2/3/09

Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1190

House FINANCE AND TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☐ Do Pass ☒ Do Not Pass ☐ Amended

Motion Made By Winrich Seconded By Wrangham

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter		/	Representative Froelich	/	
Vice Chairman David Drovdal	/		Representative Kelsh		/
Representative Brandenburg			Representative Pinkerton		
Representative Froseth	/	///	Representative Schmidt	/	
Representative Grande		/	Representative Winrich	/	
Representative Headland		/			
Representative Weiler		/			
Representative Wrangham	/				

Total (Yes) 6 No 5

Absent 2 (Brandenburg + Pinkerton)

Floor Assignment Representative Winrich

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

REPORT OF STANDING COMMITTEE

HB 1190: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (6 YEAS, 5 NAYS, 2 ABSENT AND NOT VOTING). HB 1190 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1190

HB 1190

FINANCE AND TAX COMMITTEE

WES BELTER, CHAIRMAN

January 14, 2009

FOR THE RECORD, MY NAME IS REPRESENTATIVE MARK DOSCH, DISTRICT 32. I COME BEFORE YOU TODAY TO REQUEST YOUR FAVORABLE VOTE IN SUPPORT OF HB 1190.

THIS BILL SIMPLY MOVES A TAX CREDIT THAT IS ALREADY IN CODE, FROM THE ND-2 FORM TO THE ND-1 FORM FOR TAX FILING PURPOSES.

WHEN THE CREDIT WAS FIRST ESTABLISHED, THERE WAS ONLY ONE TAX FORM TO FILE. LATER IN AN EFFORT TO CREAT A SHORTER SIMPLIFIED FORM TO FILE TAXES, THE SHORT FORM WAS ESTABLISHED. OVER THE YEARS THE SHORT FORM WAS EVENTUALLY THE FORM USED BY ALMOST 97% OF THOSE WHO NOW FILE TAXES. UNFORTUNATELY, THE TAX CREDIT WHICH WE ARE NOW SPEAKING OF TODAY WAS NEVER TRANSFERRED TO THE SHORT FORM, AND THUS, 97% OF ND FILERS NO LONGER HAVE THIS OPTION AVAILABLE TO THEM. WHAT WE ARE ASKING YOU TODAY, IS TO ALLOW THE TRANSFER OF THIS TAX CREDIT TO THE ND-1, AND THUS ALLOWS ACCESS TO THIS TAX CREDIT ONCE AGAIN, AS WAS ALWAYS THE INTENTION WHEN THIS TAX CREDIT WAS FIRST PUT IN PLACE BY THE LEGISLATION.

NOW I REALIZE THAT YOU HAVE BEEN ASKED BEFORE TO MOVE OTHER TAX CREDITS AND DEDUCTIONS FROM THE LONG TO THE SHORT FORM IN THE PAST, SO WHY SHOULD YOU FAVORABLY CONSIDER THIS REQUEST? BECAUSE THIS REQUEST DEALS WITH EDUCATION, AND IS THE ONLY TAX CREDIT I BELIEVE WILL HELP SAVE THE ND TAXPAYER \$52 MILLION DOLLARS PER YEAR, THAT'S \$104 MILLION A BIENIUM. LET ME EXPLAINE.

IN THE PAST 8 YEARS OUR GOVERNOR AND US LEGISLATORS HAVE REALIZED THE IMPORTANCE OF EDUCATION IN OUR STATE, AND THE IMPORTANCE OF PROPERLY FUNDING EDUCATION. AS A RESULT, EDUCATION FUNDING OVER THE PAST 8 YEARS HAS INCREASED BY \$100'S OF MILLIONS OF DOLLARS. PROVIDING MUCH NEEDED DOLLARS TO IMPOVE OUR STATES EDUCATION AS WELL AS RAISE THE PAY FOR OUR STATES TEACHERS. UNFORTUNATELY THIS RESULTED IN SOME UNINTENDED CONSEQUENCES. NAMELY, NONPUBLIC SCHOOLS. WHILE \$100'S OF MILLIONS OF STATE DOLLARS HAVE BEEN USED TO IMPROVE PUBLIC EDUCATION, NOTHING HAS BEEN DONE TO ASSIST THOSE STUDENTS THAT ATTEND OR INSTITUTIONS THAT PROVIDE NONPUBLIC EDUCATION. YET THEY TOO HAVE SEEN SUBSTANTIAL INCRASES IN OPERATING COSTS, AND IN AN EFFORT TO STAY SOME WHAT COMPETITIVE WITH PUBLIC SCHOOL WAGES, ARE FORCED TO RAISE THEIR TEACHERS PAY AS WELL. WITH NO HELP FROM THE STATE, NONPUBLIC SCHOOLS HAVE HAD TO ACCOMPLISH THIS ON THEIR OWN. THIS HAS RESULTED IN A SUB STANTIAL STRAIN ON THE BUDGETS OF MAY OF THESE INSTITUTIONS. SERVIVING ON A YEAR BY YEAR BASIS. BUT SOMETHING MUST BE DONE IF THERE IS ANY HOPE OF THEIR CONTINUED SERVIVAL.

I SPOKE WITH AN ADMINISTRATOR THAT RECENTLY ATTENDED A MEETING OF ADMINISTRATORS IN MN. A STATE THAT IS FACING SEVERE BUDGET CHALLENGES AND WHICH AS CALLED FOR A REDUCTION OF BUDGETS. STRUGING SCHOOL DISTRICTS FACED WITH BUDGETS CUTS, ARE STRUGGING NOT ONLY TO MAKE ENDS MEET, BUT ARE ALSO SEENING THIS PROBLEM COMPOUNDED BY AN INFLUX OF STUDENTS FROM THE NONPUBLIC SCHOOLS, AS FAMILYS SIMPLY CAN'T AFFORD THE PRIVATE EDUCATION. MAINTAINING A HEALTHY NONPUBLIC SCHOOL SYSTEM IS IN THE BEST INTEREST OF ALL.

THE BOTTOM LINE IS THIS. CURRENTLY THERE IS ABOUT 6,500 STUDENS IN K-12 NONPUBLIC SCHOOLS IN ND. GIVEN THAT IT COSTS APPROX. \$8,000 DOLLARS PER STUDENT TO EDUCATE. THAT'S A COST SAVINGS TO THE STATE AND SCHOOL DISTRICTS OF \$52 MILLION DOLLARS PER YEAR, OR YOU COULD SAY, SAVES THE DISTRICT THIS AMOUNT. THIS DOES NOT INCLUDE THE COLLEGE CATEGORY, WHICH IS FURTHER SAVINGS.

THAT IS WHY WE ARE HERE TODAY. MOVING THIS TAX CREDIT TO THE ND-1 FORM WILL ALLOW FOR MORE PEOPLE TO TAKE ADVANTAGE OF THIS CREDIT AND IS IN THE BEST INTERST OF ALL. ALTHOUGH THE FISCAL NOTE IS A DROP IN THE BUCKET WHEN COMPAIRED TO WHAT THE PUBLIC SCHOOL SYSTEMS ARE RECEIVING IT CAN MEAN THE DIFFERENCE BETWEEN KEEPING A SCHOOL OPEN OR CLOSING FOR GOOD.

THERE IS NO OTHER TAX CREDIT THAT COULD POTENTIALLY SAVE THE TAX PAYERS OF ND LITTERLY MILLIONS OF DOLLARS EACH YEAR. PAST LEGISLATORS SAW THE IMPORTANCE AND VALUE OF PROVIDING THIS TAX CREDIT; WE ARE SIMPLY ASKING YOU TO MAKE THE MOVE. IT IS A SMALL THING THAT COULD YIELD BIG RESULTS.

THIS MOVE WILL:

1. ENCOURAGE MORE PRIVATE DOTATIONS TO OUR NONPUBLIC SCHOOLS.
2. SAVE TAX PAYERS MILLIONS OF DOLLARS EACH YEAR.
3. REINSTATE THE INTENTIONS OF OUR PAST LEGISLATORS IN PROVIDING A TAX CREDIT
4. SUPPORT ALL ND STUDENTS IN THE EDUCATION ARENA
5. NOT ASKING FOR ANYTHING NEW – THE TAX CREDIT IS ALREADY IN CODE.

MR CHAIRMAN, THIS CONCLUDES MY TESTIMONY. I THANK YOU AND YOUR COMMITTEE FOR YOUR FAVORABLE CONSIDERATION. I WILL TAKE ANY QUESTIONS YOU MAY HAVE.

House Finance & Taxation Committee

January 14, 2009

HB 1190

Testimony by Rod Backman

University of Mary & Jamestown College

Chairman Belter & members of the committee my name is Rod Backman, I am here today representing Jamestown College and The University of Mary, to speak in favor of HB 1190.

For 35 plus years the State of North Dakota has allowed a State tax credit for contributions to private colleges and high schools in the state. For individual taxpayers the credit is 50% of the contribution, not to exceed 40% of the tax or \$250. **Example:** An individual gives \$500 and receives a direct tax reduction of \$250. The North Dakota tax filing instructions specifically list the private schools in the state, to which contributions qualify the taxpayer to receive the tax credit (see attached instruction page).

The state of North Dakota allowed the credit recognizing the value and importance private education plays in educating and training children. In addition private schools serve the public interest by significantly lowering the overall cost to taxpayers of providing education. The tax credit to those who donate to private education is a small way of recognizing the significant cost savings to the state.

Unfortunately most taxpayers who donate to private education cannot take the credit, because since the early 1980's, the credit has not been allowed on ND "Form 1", or what used to be called the "Short Form". The Short Form was originally set up to be a simple tax computation and allowed few deductions or credits, it also had lower tax rates and thus approximately 97% of taxpayers use this form. Over the years many deductions and credits have been added to the Short Form to the point it is no longer "Short", so much so, that they now call it "Form 1" rather than the "Short Form".

HB 1190 will allow the credit to be used on Form 1, once again allowing most North Dakotans to take advantage of the credit. Such a change will enable the private schools to promote this tax advantage to potential donors and hopefully increase contributions, thus enabling the schools to educate children without passing all the costs on via tuition increases.

Statistics relating to the tax credit:

- For the last three years (per ND Tax Department) the college credit was only claimed by an average of 9 taxpayers and the high school credit was only claimed by an average of 10 taxpayers
- Based on the number of students and the budget for the ND University system and based on the proposed per pupil aid payments to ND public schools, the State of ND will save the \$700,000 fiscal note in HB 1190 by keeping just 27 college students in the private schools and 42 high school students in the private schools.

- College head count enrollment per NDUS-fall 2007:

Public colleges	41,827
Private colleges on the tax list	4721

- High School students per DPI website-fall 2008:

Public high schools	30,727
Private high schools on the tax list	1503

- Changes in tax form most North Dakotans use:

Number of tax credits on 1997 Short Form	2
Number of tax credit on 2008 ND Form 1	17

Mr. Chairman, I make this last point to counter the argument some may make, that we do not want to add tax credits to ND Form 1. In the last 11 years a lot of tax credits have been added to Form 1. With the emphasis placed by North Dakotans on education, surely an education credit should rank up there with some of the other credits that have made their way onto Form1 (Microbusiness credit, Research expense credit, Seed capital credit). We think the time has come for the private schools tax credit to be put on ND Form 1.

The \$700,000 fiscal note is no small amount, but it is a bargain for North Dakota taxpayers, when you consider the potential cost of educating these students in the public system. The Governor's proposed budget for K-12 & Higher Ed is an increase of \$250,454,489.

The private schools in the state incur significant cost to educate children, that cost is a huge savings to the State of North Dakota. I would appreciate your support of HB 1190.

Thank you Mr. Chairman, I would be happy to answer any questions you or the committee may have.

- A tax credit is allowed for certain expenses of conducting qualifying research in North Dakota. For details, see N.D.C.C. § 57-38-30.5.

A tax credit is allowed for making a qualifying investment in an angel fund incorporated in North Dakota. For details, see N.D.C.C. § 57-38-01.26.

- Enter on this line your share of the North Dakota endowment fund tax credit from a North Dakota Schedule K-1.
- **NEW!** A tax credit is allowed for using extraordinary methods to hire an employee. For details, see N.D.C.C. § 57-38-01.25.
- **NEW!** Enter on this line an unused 2007 residential and agricultural property income tax credit that you elected to use on your 2008 return. Also include on this line an unused 2007 commercial property income tax credit.

Lines 6a through 6c - Residential and agricultural property tax credit

6a. You may be eligible for an income tax credit if both of the following apply:

- You either (1) maintained a primary residence in North Dakota for the entire 2007 tax year or (2) established a primary residence in North Dakota during the 2007 tax year that you maintained until the end of that year; *and*
- You owned residential or agricultural property located in North Dakota for which you were liable for the 2007 real estate tax or the 2008 mobile home tax.

See **Schedule PT** (in this booklet) for details. **Attach Schedule PT.**

Line 6c. If you have an unused residential and agricultural property tax credit (of at least \$5.00) on line 6b, you must elect one of the following:

- Carry over the unused credit and use it to reduce the income tax liability on your 2009 North Dakota income tax return.

- Request our office to send you a certificate for the amount of the unused credit, which you then redeem at the county treasurer's office for any county in which you have eligible property.

Fill in the applicable circle on line 6c to indicate your election.

Important: An election to receive a certificate for the amount of the unused credit must be made by the due date (or extended due date) of the original 2008 return. If you file your return late, an election to receive a certificate is not valid, and the amount of the unused credit must be carried over to your 2009 return.

Line 8 - Withholding

If you received a Form W-2, Form 1099, or North Dakota Schedule K-1 showing North Dakota income tax withholding for the 2008 tax year, enter the total of the North Dakota income tax withheld on this line. Be sure the state identified on the applicable form is North Dakota. **Attach a copy of the Form W-2, Form 1099, or North Dakota Schedule K-1.**

Line 12 - Application of overpayment to 2009

If you have an overpayment on line 11, you may elect to apply part or all of it as an estimated payment toward your 2009 income tax liability. If you make this election, you may not change the election or the amount you applied after you file your return.

Lines 13 and 14 - Voluntary contributions

If you have an overpayment on line 11, you may make a voluntary contribution of part or all of your overpayment to the Watchable Wildlife Fund or the Trees For North Dakota Program Trust Fund (or both) by entering on the applicable line the amount you wish to contribute. If contributing, you must contribute at least \$1.00. A contribution will reduce your refund.

Line 17 - Penalty and interest

Our office will notify you of any penalty and interest owed for late filing or late payment, or for interest owed on an extension. However, you may calculate the amount of penalty, interest, or both, that you owe and pay it with your return. Enter the separate penalty and interest amounts, and their total, on line 17. For how to calculate the penalty and interest due, see page 5.

Qualifying nonprofit private high schools and colleges (for charitable contribution tax credit - Tax Computation Schedule, Line 4)

High school category—

- Anne Carlsen School (Jamestown)
- Bishop Ryan High School (Minot)
- Dakota Memorial High School (Minot)
- Dickinson Trinity High School (Dickinson)
- Johnson Corners Christian Academy (Watford City)
- New Testament Baptist Christian School (Larimore)
- Oak Grove Lutheran High School (Fargo)
- Our Redeemer's Christian School (Minot)
- Prairie Learning Education Center (Raleigh)
- St. Mary's Central High School (Bismarck)
- Shanley High School (Fargo)
- Shiloh Christian School (Bismarck)
- Trinity Christian School (Williston)

College category—

- Jamestown College (Jamestown)
- North Dakota Independent College Fund
- Trinity Bible College (Ellendale)
- United Tribes Technical College (Bismarck)
- University of Mary (Bismarck)

Nonprofit private institutions
(for purposes of N.D.C.C. § 57-38-01.7)

High schools (9th through 12th grade institution)

Anne Carlsen School (Jamestown)
Bishop Ryan High School (Minot)
Dakota Memorial High School (Minot)
Dickinson Trinity High School (Dickinson)
Johnson Corners Christian Academy (Watford City)
New Testament Baptist Christian School (Larimore)
Oak Grove Lutheran High School (Fargo)
Our Redeemer's Christian School (Minot)
Prairie Learning Education Center (Raleigh)
St. Mary's Central High School (Bismarck)
Shanley High School (Fargo)
Shiloh Christian School (Bismarck)
Trinity Christian School (Williston)

Colleges

Jamestown College (Jamestown)
University of Mary (Bismarck)
North Dakota Independent College Fund (Bismarck)
Trinity Bible College (Ellendale)
United Tribes Technical College

January 16, 2009

House Finance & Taxation Committee

Rep. Belter, Chairman

HB 1190

Cost of Education statistics as per request from Rep. M. Brandenburg

Prepared by Rod Backman , 400-2076

High Schools

Total Students at private high schools that qualify for the tax credit	1503
Cost of education for grades 9-12 per DPI, Schools District Facts-June, 2007	\$8,111
Proposed foundation aid payments for '09-'11 biennium (2 year average)	\$3,603
Biennial total, based on cost of education 1503 X \$8,111 X 2 years=	\$24,381,000
Biennial total, based on '09-'11 foundation aid 1503 X \$3,603 X 2 yrs=	\$10,830,000
Private high schools share of \$700,000 fiscal note on HB 1190	\$ 301,000

Colleges

Total Students at private colleges that qualify for the tax credit	4721
State biennial cost per student (headcount fall '07 per NDUS)	\$ 13,638
(Total ND Higher Ed budget '09-'11 divided by total public enrollment 41,827) a	
Biennial total, based on cost of education 4721 X \$13,638 =	\$64,385,000
Private Colleges share of \$700,000 fiscal note on HB 1190	\$ 399,000

a (adjusted to exclude UND medical school)

Testimony 3
January 14, 2009

Testimony in Support of House Bill 1190

As a graduate, parent and supporter of private non profit secondary and higher education as well as a Certified Public Accountant I am in support of HB1190 which would move the credit for contributions to non profit organizations providing secondary and higher education from the State Tax Long Form ND-2 to the State Tax Short Form ND-1. I have never filed the From ND-2 and don't foresee any time in the future that I would benefit from filing the state long form.

Michael T. Schmitz, CPA

Testimony
House Committee on Finance and Taxation
Ross Reinhiller
Administrator Shiloh Christian School
January 14, 2009

Chairman Belter, Vice Chairman Drovdal, and Members of the Committee:

Thank you for giving me the opportunity to speak on this important topic of reassigning the tax credit for donations to private schools from the North Dakota Long Tax Form to the Short Form. It is an honor for me to speak directly with you. I am appreciative of the support North Dakota gives by allowing the tax credit and am grateful to this committee for the opportunity of making the tax credit more accessible.

Today you will hear from experts that will show the big picture of how the relocation of the tax credit will affect private education in the grandest scope. I will share how this change in location affects one school.

Shiloh Christian School is a small Class B school with a total enrollment of 304 students. We are in our thirty first school year and have graduated nearly 300 students since 1981. We estimate that this year Shiloh has saved the North Dakota tax payer a little over \$3,309,000 by providing a private education funded without State monies. This estimate is based on Quality Counts 2009 published by Education Week that states North Dakota spends \$10,885 per student for education.

According to the 2009-10 budget adopted by our School Board the cost of educating a child at Shiloh is \$5767. Shiloh makes an effort for all who want an education based on Christian values to receive that education. Because of this commitment Shiloh provides financial aid to 45% of our student body. This aid is funded through contributions from generous supporters. The amount of contributions needed to fund our financial aid and discount budget this year is \$518,000. Contributions make up about 1/3rd of our budget. Though Shiloh is blessed with a few patrons whose economic position allows them to give large gifts, we still rely on gifts from people whose average gift is between \$100-250. Relocating the tax credit to the North Dakota Short Tax form (the form used by the majority of North Dakotans) will be a wonderful way for us to reach out to that \$100-500 donor and possibly increase the number of donors.

The relocation of the tax credit will help our families who not only pay to educate their own children but also contribute through North Dakota Income Tax and property taxes to the education of children in the public school system.

Thank you for your time and consideration. May God Bless you.

Testimony \$

House Finance & Taxation Committee

January 14, 2009

Testimony for HB 1190

State Association of Non-Public Schools

Chairman Belter & Committee Members:

My name is John Jankowski. I am the Superintendent of St. Mary's Central High School here in Bismarck and I am also the President of the State Association of Non-Public Schools. (SANS)

I ask you to support HB 1190 for the parents and patrons of private institutions in the state of North Dakota. This simple change in the ND Tax Code will allow for a greater number of tax payers to be able to receive a tax credit for their donation to private institutions.

In today's troubling times of trying to raise funds for our private institutions we can use the assistance of this bill. Giving citizens a tax credit only if they file the ND Long Form just doesn't work. We all know that the percentage of citizens filing the ND Long Form for income tax is very small. The credit is now available; please make it easier for the citizens of this state to receive it.

By giving your approval to HB 1190 you are helping your fellow citizens obtain a tax credit that they currently earn but can't use.

Thank you!