

2011 HOUSE FINANCE AND TAXATION

HB 1235

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1235
January 18, 2011
#13052

☐ Conference Committee

Committee Clerk Signature

Mary Bruckner

Explanation or reason for introduction of bill/resolution:

A Bill relating to refund of rent constituting property taxes for eligible individuals; and to provide an effective date.

Minutes:

Representative Glasssheim: Sponsor. Support. Basically this is a bill to extend school property tax credits, which go to property owners across the state, to renters. The theory of it is that it should be fair and that 110,000 people (1/6 of the state) do not receive any benefit from the property tax rebate. I'm certainly aware that the owners of the property do get a rebate, however, we have no way of knowing that it is not passed on to the renters. It seems unfair that 1/6 of the population do not receive any benefit from the property tax rebate. This bill is an attempt to correct that inequity. I'm aware that it is complex and I'm sure there will be testimony that it is difficult to administer and as a member of appropriations I don't like to spend money either or have money deferred from the general fund. There's a fiscal note of \$15-30 million on it. On the other hand, we're spending \$400 million to give property owners a rebate. The renters are paying in their rent for property taxes of the owner but they are not receiving any portion of the rent back. This is simply to be fair to that percentage of the population. I think it would be helpful for Mr. John Walstad of Legislative Management to walk you through the bill.

Claus Lembke, ND Association of Realtors: Opposition. We looked at this bill and we feel that the market value determines rental fee. Those increases in utilities don't happen overnight but they do reflect themselves eventually. There's competition out there and that will reflect it. The renters will indirectly benefit from the right market rates and if you were to give them an additional benefit then they would be really double dipping in the discount: once from the reduced rent and once from the direct benefit from the state.

Representative Dave Weiler: Do you have any facts to show there are apartment owners that have reduced their rent? Do you have any information on that for us?

Claus Lembke: I do not. Eventually it will show up. The competition with the new apartments will come in here and bring the rent down if you have competition.

Representative Shirley Meyer: In my reading of the bill it isn't going to be taken away from the property owner it's just going to be given in addition to the renter. Or isn't that how you read this?

Claus Lembke: You are correct but it is an additional tax cost and they'd be double dipping. We don't think that's necessary.

Representative Steven L. Zaiser: Are you aware of one apartment owner or property owner who leases their property that has reduced its rates?

Claus Lembke: I do not.

Rocky Gordon, Lobbyist for the ND Apartment Association and Landlord: Opposition. The administrative this creates. A landlord will have to give every tenant, even though he's only rented for one month, a certificate or 1099 saying how much rent he has paid. We in the industry are faced with more administration with the new health law, we have to send a 1099 to every vendor we buy supplies from in addition to people who do labor for us. This would create a whole another set of administrative costs we have that may get passed on. This is a complex bill. It creates quite a bit of an administrative burden. The other thing, in response to a couple questions; have landlords reduced rents directly because of the tax relief. I can't say that there has or hasn't been anybody but that's only relative to the total picture when you look at the expenses of running an apartment complex. That's one component. To give you an example, when heating costs rose 40% in a season, did those costs get passed on to the tenants? They did but it wasn't immediate, it took a couple years. The same is true of this whole thing. You have to look at the whole picture and say what are our costs doing not just the taxes.

Representative Steven L. Zaiser: Do you think in the western part of the state any gauging or any profit taking on behalf of the landlords?

Rocky Gordon: I'm from Bismarck and so I really can't answer that question.

Representative Dave Weiler: IT's fair to say then based on your testimony that you feel that because of the decreased tax the apartment owner/landlord is receiving that rents are going to go up at a much slower rate? That's a possibility, correct?

Rocky Gordon: Yes. When we look at our expenses we look at them in total and certainly taxes are a part of that. A big example this year is snow removal. We're spending a ton on snow removal, more than what was budgeted and more than what we're used to seeing. So it all goes into the bigger picture.

Chairman Wesley R. Belter: No further testimony in opposition. No neutral testimony. Closed hearing on HB 1235. Representative Glasssheim, if you could talk to John Walstad and have him come back this afternoon?

Representative Glasssheim: Yes, I will do that.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1235
January 18, 2011
#13067

☐ Conference Committee

Committee Clerk Signature

Mary Bruckner

Explanation or reason for introduction of bill/resolution:

A Bill relating to refund of rent constituting property taxes for eligible individuals; and to provide an effective date.

Minutes:

Chairman Wesley R. Belter: Reopened hearing on HB 1235. John Walstad is here to walk us through the bill.

John Walstad, Legislative Management: The point of the bill is to provide a tax refund to renters. It's based on a calculation of a portion of rent constituting property taxes exceeds the percentage of household income of the claimant. It's a fairly complicated system. It was taken from Minnesota law with adjustments to make it readable. There are some definitions on how to determine gross household income. There are some income brackets based on household income in determining how to compare that to the portion of rent constituting property taxes. There are some limitations. I don't recall if there was a maximum. It looks like there's a \$200 maximum refund for any one renter. There are limitations of one claim per household. I think there's something in there about filing a joint claim for couples who may no longer be in the same household. The rest of the bill looks administrative to me. If there are some parts of this anyone has a question about I would take any questions.

Chairman Wesley R. Belter: the provision with only one claim per household so in the case where college students live in one place only one of them could file, is that correct?

John Walstad: That is correct. I can't put my hands on it but I think somewhere in here there is some language about in that case only one can claim the credit and how they split it up among themselves is up to them.

Representative Mark S. Owens: Yes, there's an item in there that you have to include everybody who is living in the apartment and their income to determine their eligibility. I was trying to figure out the definition within this document that states it was 10% of their rent as a property tax amount. I was trying to figure out the formula to see how you get at that \$200 maximum formula. I was hoping you could walk us through a formula to show us how you get that.

John Walstad: I don't think I could do that without sitting down with a paper and pencil. What I can do for the committee's benefit is sit down and try to figure it out for you.

Representative Scot Kelsh: Are apartments assessed at a commercial rate or a residential rate?

John Walstad: It depends on the number of units. If its four units or more its commercial property assessment and if it's less than that it's residential property assessment.

Representative Scot Kelsh: Which is 10% of the value?

John Walstad: Commercial is 10% of the assessed value and residential is 9% assessed value.

Representative Scot Kelsh: So that may be where the 10% figure came about?

John Walstad: That's a possibility. It may have just been a number out of the air, I'm not sure. It might be a Minnesota law too.

Representative Lonny B. Winrich: We had some testimony this morning objecting to the amount of information that a landlord has to provide for each tenant. Could you walk through that and explain what a landlord needs to do in that case.

John Walstad: I recall that there is some information a landlord has to provide. Certificate of rent paid from the property owner. It appears that that's the extent of what is required. And if the owner or manage won't provide this the claimant can file an affidavit of what the rent paid was. It's more paperwork for landlords but its just to say I collected so much rent from tenant A.

Representative Dwight Wrangham: My question is of the deductibility of the property tax paid by the owner of the property. They would still be eligible to deduct 100% of the property tax that they paid on their income tax statement?

John Walstad: Yes. This would not affect how much property tax they pay it would still pay the same amount. In fact this wouldn't even be based on how much property tax the landlord pays. This is a comparison of rent paid to income of the tenant. Then the report is made of what that amounted to and the credit is taken against the tenant's income tax liability up to \$200. So it wouldn't affect the property tax at all.

Representative Dwight Wrangham: It's like a double deduction. The landlord gets to use the full property tax deduction plus a percentage of that is also reduced from the tenant's income tax.

John Walstad: That is correct. You've heard discussion about bills that would require the landlord turn over some of his property tax savings to the tenant. In this case the landlord would turn over none of his money to the tenant but the state through the income tax credit to the tenant would be providing some property tax relief.

Representative Bette Grande: We're doing this based on the income of the tenant's, correct? Not based on how much rent they're paying?

John Walstad: It's both.

Representative Bette Grande: So there's a formula that's going to combine the two to determine the amount?

John Walstad: Correct.

Representative Bette Grande: If I'm a multi-unit, multi-tenant landlord this is a burden. If I have 24 units and it's by a university and I have college students in each one and I have to figure out what each one was paying for rent and could then be a paperwork issue. We break down four units and make it commercial, four units below that makes it residential. If I own a home and rent it to somebody does this qualify in that too?

John Walstad: A single family home rented out is residential property but it could still qualify for this credit if a tenant would be able to afford to live in a single family type unit.

Representative Steven L. Zaiser: Testimony this morning from a landlord said there was already paperwork that exists for property owners or landlords.

Representative Wayne Trottier: Would we as legislators being out here not qualify? Even being reimbursed for the full year?

John Walstad: I guess I haven't thought of rent reimbursement. All that matters here is how much rent is being paid and the income level of the tenant.

Chairman Wesley R. Belter: Thank you John. No further testimony. Closed hearing on HB 1235.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1235
January 24, 2011
#13322

☐ Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to refund of rent constituting property taxes for eligible individuals; and to provide an effective date.

Minutes:

Chairman Wesley R. Belter: This was Representative Glassheim's and was a refund of rents.

Representative Bette Grande: I make a motion for DO NOT PASS.

Representative Roscoe Streyle: Seconded.

A roll call vote was taken: YES 9 NO 3 ABSENT 2

MOTION CARRIED—DO NOT PASS.

Representative Dave Weiler will carry HB 1235.

FISCAL NOTE

Requested by Legislative Council
01/11/2011

Bill/Resolution No.: HB 1235

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 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.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 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 1235 provides a refund of a portion of rent constituting property taxes for qualifying renters.

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.*

There are approximately 100,000 to 110,000 renters in North Dakota. There is no information currently available regarding renters' level of income, the amount of rent they pay, and the number who may qualify for the provisions of HB 1235. Assuming 75% of renters have income below the \$50,000 threshold in the bill and pay a qualifying amount of rent, the fiscal impact could be approximately -\$15 million per year, or -\$30 million for the 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, 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:	01/17/2011

Date: 1-24-11
Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1235

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☒ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Grande Seconded By Rep. Streyle

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh		✓
Vice Chair. Craig Headland	✓		Shirley Meyer		✓
Glen Froseth	✓		Lonny B. Winrich		✓
Bette Grande	✓		Steven L. Zaiser	AB	
Patrick Hatlestad	✓				
Mark S. Owens	AB				
Roscoe Streyle	✓				
Wayne Trottier	✓				
Dave Weiler	✓				
Dwight Wrangham	✓				

Total (Yes) 9 No 3

Absent 2

Floor Assignment Rep. Weiler

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

MOTION CARRIED

REPORT OF STANDING COMMITTEE

HB 1235: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (9 YEAS, 3 NAYS, 2 ABSENT AND NOT VOTING). HB 1235 was placed on the Eleventh order on the calendar.

2011 TESTIMONY

HB 1235