

**TESTIMONY OF THE OFFICE OF STATE TAX COMMISSIONER
BEFORE THE
TAXATION COMMITTEE**

AUGUST 1, 2012

Chairman Hogue, members of the Taxation Committee, I am Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division for the Office of State Tax Commissioner. I am here today to provide information on the items requested by John Walstad in his memo dated June 28, 2012.

New and Expanding Business Property Tax Exemption

We were asked to provide the taxable values of property in the 10 largest counties (by population) exempted under the new and expanding business exemption granted by cities or counties. The attached chart shows that information for taxable year 2011. The grand total taxable value exempted in those counties under N.D.C.C. ch. 40-57.1 was \$11,984,099.

Options Concerning Application for a Residential Property Tax Exemption.

There are pros and cons of requiring homeowners to apply for a residential property tax exemption every year instead of just leaving the exemption in place:

Pros:

- Verify ownership in case a transfer has occurred without a deed being recorded.
- Identify deceased homeowners.
- Identify property owners who have moved and are renting their exempted property to others.
- Identify multiple exemptions for the same individual.
- Homeowners may neglect to report a change in eligibility if not required to do so annually.
- Reminder notices could be included with tax statements for all residential properties, thus limiting mailing costs.

Cons:

- Annual application will greatly increase the workload and expense for cities and counties.
- Homeowners may forget to make annual application and will then file applications for abatement.
- It will be very difficult, if not impossible, for cities and counties to process all the paperwork for all qualifying primary residences in North Dakota within the proposed time frame. It will

likewise be difficult for the tax department to adequately review the county certifications within the allotted time.

Service available:

LexisNexis offers a Homestead Exemption Fraud Detection Solution. I participated in a webinar on the subject. "Homestead Exemption fraud costs governments millions in lost revenue annually. Governments rely on assessors for an accurate picture of the tax base. LexisNexis® Homestead Exemption Fraud Detection Solution can help assessors to ensure property owners pay their fair share by identifying deceased individuals, multiple exemptions, and people who have moved and/or are renting their exempted properties." www.lexisnexis.com/government Larger cities or counties might be interested in looking into that service.

Within the past year I received a call from an out-of-state county asking whether a certain couple who reported having property in a North Dakota county had a homestead exemption on that property. We were able to verify that they did not.

Changing the Mobile Home Tax to Synchronize With the Property Tax Year

On May 29, 2012, I testified before you concerning the ways mobile homes are currently assessed and taxed in North Dakota. Taxes on mobile homes are levied for the upcoming year while taxes on real property are levied for the prior year. The timing differences are confusing to property owners and administrators. They create a problem when planning for property tax relief. Mill rates for mobile home taxes are the same as the prior year mill rates for real property taxes. Taxable year 2012 mobile home taxes were calculated at the 2011 real property mill rates. Bill draft 13.0107.01000 would make taxation of mobile homes more comparable to taxation of real property.

SECTION 1 amends subsections 2 and 3 of section 57-15-01.1 of the North Dakota Century Code. I suggested this amendment because I believe it will assist in making mobile home taxation more similar to real property taxation. Section 57-15-01.1 provides that a taxing district may levy the same amount in dollars that it levied in the base year (the highest of the last three years), with adjustments for new property and lost property. Present language allows for the valuation of taxable real property and property exempt by local discretion or charitable status

also to be used in the mill levy calculation. That allows a political subdivision to levy more dollars and generates a higher allowable mill rate than that which would result from use of taxable real property only. The higher mill rate is applied to taxable property and provides a certain amount of revenue to cover services provided to both taxable and exempt property.

At present, anticipated revenue from mobile home taxes is considered "other income" and is not included in the budget to be satisfied by property taxes. Under this bill draft, mobile homes will become taxable like real property. Therefore, mobile home taxable value should be considered in setting the mill rates. Unlike property exempted by local discretion or charitable status, mobile homes will be subject to the calculated mill rates and not exempt. Anticipated revenue from mobile home taxes should no longer be considered "other income" but should be included in the property tax budget.

I realize there may be different opinions on the proposed amendment to Section 1. Section 1 is a recommendation but is not essential to this bill. No other part of Draft no. 13.0107.01000 depends on approval of section 1.

SECTION 2 amends Section 57-15-02 to require that the calculated mill rate is applied to taxable mobile homes.

SECTION 3 amends Section 57-55-01.1 to remove the requirement that the mobile home tax must be paid before a mobile home tax permit is issued. It provides better tracking of mobile homes that move during the taxable year and provides a penalty for failure to comply with this section.

SECTION 4 amends section 57-55-03 to make mobile home taxes payable on January 1 of the year following the year for which the taxes were levied, the same as real property taxes. It provides that the tax may be paid in two equal installments if the tax due is \$200 or more, instead of the former amount of \$40. Section 4 also changes penalty and interest dates to conform to real property tax penalty and interest dates.

SECTION 5 amends section 57-55-04 and makes technical corrections to put the section in compliance with other new language.

SECTION 6 amends section 57-55-04.1 and provides that a person may appeal the valuation of a mobile home to the county board of equalization and the state board of equalization. Because mobile homes continue to be assessed by the county director of tax equalization, there is no need to appeal to a city or township board. Section 6 retains the existing provision that a person may file an application for abatement.

SECTION 7 provides that mobile homes on which 2013 mobile home taxes under existing law were due January 10, 2013, are subject to payments in lieu of mobile home taxes for taxable year 2013. By December 26, 2013, each county auditor shall submit to the state treasurer for payment a statement of the amount of payments in lieu of mobile home taxes for taxable year 2013 against mobile homes in the county. By December 26, 2013, the county treasurer shall provide the owner of a mobile home taxable in the county a statement for taxable year 2013 in the format prescribed in section 57-55-04 but showing no taxes due from the owner and that the tax obligation for taxable year 2013 will be paid by the state. The state treasurer will make the required payments to counties by March 1, 2014.

SECTION 8 appropriates \$4,000,000 to the state treasurer for the purpose of payments in lieu of mobile home taxes for taxable year 2013 for the biennium beginning July 1, 2013, and ending June 30, 2015.

REASON FOR SECTIONS 7 AND 8. Mobile home taxes under current law are paid for the upcoming year. Taxable year 2013 mobile home taxes will be due in January 2013, and 2013 real property taxes will be due in January 2014. Real property taxes are paid for the year prior to the due date. If this bill is enacted, 2013 real property taxes and 2013 payments in lieu of mobile home taxes will both be due in January 2014. The problem is that mobile home owners will have already paid mobile home taxes for taxable year 2013. They will not understand why they are asked to pay another tax on the mobile home for 2013.

If this bill were enacted without sections 7 and 8, mobile home taxpayers would still have only one tax bill to pay in January 2013 and one tax bill to pay in January 2014, although both of those bills would be called 2013 taxes. With sections 7 and 8 included, a mobile home taxpayer would not have to pay any tax in January 2014 and would get one year free of taxes.

I recommended the one-year state payment because I anticipate difficulty in convincing mobile home taxpayers that this proposed law change does not result in double taxation on mobile homes for 2013. If you believe it can be adequately explained to mobile home owners that this change does not create double taxation for 2013, there is no need for sections 7 and 8. The state will not have to make any payment. A mobile home taxpayer who makes one 2013 mobile home tax payment in January 2013 will make one 2013 "payment in lieu of property taxes" in January 2014. Going forward, in January 2015 a mobile home taxpayer will make a property tax payment for taxable year 2014, at the same time real property owners pay taxable year 2014 property taxes.

Enactment of this bill will not affect revenue received by political subdivisions. The amounts received and the time of receipt will be the same, with or without sections 7 and 8.

This concludes my prepared testimony. I will try to answer any questions you may have.

2011 New and Expanding Business Property Tax Exemptions

Taxable Values

10 Largest Counties by Population

COUNTY #	COUNTY	40-57.1-03	40-57.1-04.1	40-57.1-04.3
8	Burleigh		44,435	5,145,400
9	Cass	2,751,355		
18	Grand Forks	1,977,545		
30	Morton	1,032,830	16,590	
39	Richland	103,164	12,500	
40	Rolette		2,020	
45	Stark	390,298		
47	Stutsman	176,955	32,760	
51	Ward	67,775		
53	Williams	190,989	39,483	
	TOTALS	6,690,911	147,788	5,145,400
	GRAND TOTAL	11,984,099		