



TAX RELIEF ADVISORY COMMITTEE

Tuesday, March 26, 2024
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Jordan L. Kannianen, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Jordan L. Kannianen, Dale Patten, Dean Rummel; Representatives Glenn Bosch, Jared Hagert, Craig Headland

Members absent: None

Others present: Senator Brad Bekkedahl, Williston, member of the Legislative Management
Bryan Bittner, Brian Kroshus, Shelli Myers, and Matthew Peyerl, Tax Department; Pete Hanebutt, North Dakota Farm Bureau; and Linda Svihovec, North Dakota Association of Counties
Allen H. Knudson, Legislative Council, Bismarck

It was moved by Representative Bosch, seconded by Representative Hagert, and carried on a voice vote that the minutes of the February 7, 2024, meeting be approved as distributed.

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, presented information ([Appendix A](#)) regarding the state budget. He noted:

- General fund appropriations for the 2023-25 biennium total \$6.10 billion, including \$5.84 billion of ongoing funding and \$250 million of one-time funding.
- Estimated oil and gas tax revenues for the 2023-25 biennium total \$5.13 billion, \$1.50 billion of which represents the state funds share of oil and gas tax revenues.
- Fluctuating oil and gas tax revenues present challenges when preparing the state budget.
- General fund tax and fee revenues are 16 percent more than forecast and oil tax revenues are 14 percent more than forecast during the 2023 legislative session through February 2024.
- The total budget amount needed for the 2025-27 biennium is estimated at \$1.49 billion.

In response to questions from committee members, Mr. Knudson noted funding for the primary residence credit program and tuition freeze program are reflected as ongoing spending.

INCOME TAX RELIEF

Mr. Brian Bittner, Research Analyst, Tax Department, provided data ([Appendix B](#)) relating to individual income tax returns and income tax deductions and credits. He provided the dollar amount claimed and number of claimants for individual income tax credits and deductions in each individual income tax bracket. He noted 573,564 of the 916,116 individual income tax returns filed in the 2022 tax year had no net tax liability.

Mr. Bittner provided information ([Appendix C](#)) regarding the estimated fiscal impact of removing the state marriage penalty. He noted:

- To remove the state marriage penalty, the Legislative Assembly would need to repeal the state marriage penalty credit and adjust the married filing jointly individual income tax brackets to reflect a true doubling of the single filer brackets.
- The estimated cost to remove the state marriage penalty for all individual income tax brackets is approximately \$46.7 million. This figure is based on 2022 tax year data and includes the impact of removing the state marriage penalty credit.

Mr. Bittner provided information ([Appendix D](#)) regarding the estimated fiscal impact of options to implement a flat individual income tax rate and options to modify the individual income tax structure. He noted, based on 2022 tax year data:

- If the amount of income exempted in the bottom bracket is doubled for all filing types and a 2.25 percent flat tax is applied to all income over the exempt amount, the estimated fiscal impact would be approximately \$212 million. Under this scenario, approximately 84 percent of individual income tax returns would have no net tax liability.
- If the amount of income exempted in the bottom bracket is increased by 25 percent for all filing types and a 1.95 percent flat tax is applied to all income over the exempt amount, the estimated fiscal impact would be approximately \$146 million. Under this scenario, approximately 69 percent of individual income tax returns would have no net tax liability.
- If the rates in the brackets are reduced by approximately 25 percent to provide a 0 percent rate in the first bracket, 1.5 percent rate in the second bracket, and 1.9 percent rate in the third bracket, the estimated fiscal impact would be approximately \$155 million. Under this scenario, approximately 61 percent of individual income tax returns would have no net tax liability.

In response to questions from committee members, Mr. Matthew Peyerl, Associate Director and Auditor, Tax Administration Division, Tax Department, noted:

- The only income tax credit with a carryback provision is the research expense income tax credit.
- A marriage penalty only is experienced in the highest federal income tax bracket.
- The department is monitoring the provisions of the 2017 Tax Cuts and Jobs Act scheduled to expire at the end of 2025.

Committee Discussion

Committee members noted:

- It may be helpful to review data related to the potential income tax relief options broken down by resident status.
- The committee may wish to discuss the impact of any income tax rate changes considered by the committee on passthrough income.
- It is important to keep in mind property tax concerns expressed by constituents and the initiated petition for the proposed constitutional amendment to eliminate property tax as the committee considers whether and to what extent it is appropriate to provide income and property tax relief.

PROPERTY TAX RELIEF

Senator Bekkedahl noted committee members may be interested in reviewing the Council of State Governments Midwest online article entitled [Midwest's legislatures explore paths to property tax relief](#).

Ms. Shelli Myers, State Supervisor of Assessments, Tax Department, provided information ([Appendix E](#)) regarding county data submitted to the Tax Department pertaining to participation in the homestead tax credit program, including the number of applicants received by each county and total reimbursement due to each county for homestead tax credits. She noted, based on data received from 52 of the 53 counties:

- The number of applicants taking advantage of the homestead tax credit program increased by 76 percent.
- 13,544 homestead tax credit applications were approved for the 2023 tax year.
- The number of applications approved for the 2023 tax year was 1,204 higher than the number of applications projected in the fiscal note for House Bill No. 1158 (2023).

In response to questions from committee members, Ms. Myers noted a combined effort from the Tax Department and county representatives to advertise the expansion of the homestead tax credit likely contributed to the significant increase in homestead tax credit applications for the 2023 tax year.

Ms. Myers provided information ([Appendix F](#)) regarding the property tax statement working group. She noted:

- The working group consists of nine members, including representatives from the Tax Department, representatives of the North Dakota Association of Counties, and county auditors.

- The working group met to discuss the statutory requirements for the primary residence credit and how best to reflect information related to the primary residence credit on the notice of estimated property tax and budget hearing and property tax statement.

In response to a question from a committee member, Ms. Myers noted the property tax statement working group is not the working group formed by House Bill No. 1245 (2023). She noted the property tax statement working group was formed to address the inclusion of the primary residence credit on the notice of estimated property tax and budget hearing and property tax statement.

In response to questions from committee members, Ms. Linda Svihovec, Research Analyst, North Dakota Association of Counties, noted feedback received from certain counties relating to potential modifications to the property tax statement, including the addition of a colored pie chart on the property tax statement.

Committee members discussed potential approaches to modifying the property tax statement to provide greater clarity to taxpayers, and noted House Bill No. 1245 provided for a Tax Commissioner study related to property tax transparency, which may consider the property tax statement concerns discussed by committee members.

Mr. Brian Kroshus, Tax Commissioner, provided information regarding application of the homestead tax credit and primary residence credit to mobile home taxes. He noted adjusting the mobile home tax payment due date to align with the real estate tax due date may resolve the concerns related to the primary residence credit for primary residences taxed as mobile homes.

In response to a question from a committee member, Mr. Kroshus noted because mobile home taxes are paid in advance at the beginning of the tax year and real estate taxes are retroactively paid after the tax year is complete, if the mobile home tax payment due date is adjusted to align with the real estate tax due date it would delay the revenues historically received by taxing districts for mobile home taxes by approximately 1 year.

In response to a question from a committee member, Ms. Svihovec noted:

- Before mobile homes were taxed at the local level, mobile homes were licensed and registered with the Department of Transportation on a calendar year basis.
- The mobile home tax was implemented with the same payment cycle mobile homeowners had been subject to under the license and registration requirement in place before the shift to local taxation.
- An option to address concerns regarding application of the homestead tax credit and primary residence credit to mobile home taxes may be to include clarifying language regarding application of the credit to the same tax cycle rather than tax year.

Ms. Megan J. Gordon, Counsel, Legislative Council, presented a memorandum entitled [Property Tax Exemptions](#).

In response to a question from a committee member, Ms. Svihovec noted:

- The data counties aggregate related to tax-exempt property generally is limited to the information specifically requested by the Tax Department. The Tax Department requires each county to submit an abstract, which includes valuation information for a narrow list of tax-exempt property in the county.
- Not all tax-exempt property is consistently valued by assessors.
- A comprehensive set of data that includes valuations of all tax-exempt property most likely is not available.

Ms. Svihovec provided information ([Appendix G](#)) regarding property tax calculation, including an overview of:

- The valuation process for locally assessed property, centrally assessed property, rural electric cooperatives, and telecommunications companies.
- The budget preparation process, including the county budget cycle timeline, political subdivision budget worksheets, calculation of mill rates, and maximum levy worksheets.
- Estimated property tax notices and tax statements.

Committee members expressed a desire to review information regarding centrally assessed property and taxes levied in lieu of property tax.

Mr. Kroshus provided information ([Appendix H](#)) regarding the status of implementing the primary residence credit, including information technology changes and advertising efforts for the primary residence credit. He noted:

- The Tax Department created a custom online primary residence credit application, file sharing process between the state and counties, and custom reports and tracking mechanisms for primary residence credit statistics.
- As of March 25, 2024, the Tax Department received 122,357 primary residence credit applications, approximately 16,000 phone calls regarding the primary residence credit, and a 99 percent approval rating for services provided related to the primary residence credit.
- The Tax Department's marketing for the primary residence credit includes fliers; television, radio, website, and newspaper advertising; direct mailing of postcards to known individuals who did not apply for the credit; and social media campaigns.

In response to a question from a committee member, Mr. Kroshus commended the work of the Tax Department and county employees who contributed to the successful implementation of the primary residence credit and noted taxpayer feedback indicated the primary residence credit program was well received.

Committee members expressed a desire to review information and data after the application period is closed related to participation in the primary residence credit program, including data broken down by county.

Mr. Kroshus provided information ([Appendix I](#)) regarding the estimated fiscal impact to increase the primary residence credit amount by \$50 increments up to a maximum credit of \$1,000. He noted for purposes of the estimated fiscal impact calculation, the Tax Department assumed 165,000 households would qualify for the primary residence credit.

Comments by Interested Persons

Mr. Pete Hanebutt, Director of Public Policy, North Dakota Farm Bureau, provided testimony relating to the committee's study of property tax relief. He noted it is important to involve property taxpayers and representatives of property taxpayer groups in discussions regarding property tax reform and relief and to consider the impact of approaches for property tax reform and relief on rural taxpayers.

The committee received written testimony ([Appendix J](#)) from Mr. Don Clement, Bismarck, related to the committee's study of property tax relief.

Committee Discussion

Committee members noted a desire to discuss property tax relief topics, including:

- Limiting the growth of property taxes levied by taxing districts, including discussion with and feedback from stakeholders.
- Providing targeted property tax relief for primary residences, including continuation of the primary residence credit program, increasing the amount of the primary residence credit, and adjusting the taxable valuation calculation for residential property.
- Identifying property tax exemptions available under law and data related to tax-exempt property in each county.

Committee members also noted:

- It is important to inform taxpayers the committee is working on ways to provide property tax relief.
- It may be important to identify a dedicated funding source for property tax relief.
- A desire to discuss an appropriate legislative response to the initiated petition for the proposed constitutional amendment to eliminate property tax if a response becomes necessary.

No further business appearing, Chairman Kannianen adjourned the meeting at 4:10 p.m.

Megan J. Gordon
Counsel

ATTACH:10