



TAX RELIEF ADVISORY COMMITTEE

Thursday, June 20, 2024
Harvest 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 Don Clement, Bismarck; Amy De Kok, North Dakota School Boards Association; Lori Hanson, Mountrail County; Brian Kroshus, Tax Commissioner; Shelli Myers and Matthew Peyerl, Tax Department; and Linda Svihovec, North Dakota Association of Counties

See [Appendix A](#) for additional persons present.

It was moved by Representative Bosch, seconded by Senator Rummel, and carried on a voice vote that the minutes of the March 26, 2024, meeting be approved as distributed.

INCOME TAX RELIEF

Ms. Megan J. Gordon, Code Revisor, Legislative Council, presented a bill draft [[25.0250.01000](#)] to remove the marriage penalty and repeal the marriage penalty credit.

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

- Taxpayers in the lower income tax brackets will receive a greater benefit if the married filing jointly income tax brackets are adjusted to reflect a doubling of the income ranges of the single filer brackets compared to the benefit obtained from claiming the marriage penalty credit under current law.
- Approximately \$8 million in marriage penalty credits were allowed in the current biennium.

Committee members noted it may be prudent to wait for additional information regarding other potential tax relief proposals and the initiated petition for a proposed constitutional amendment to eliminate property tax before deciding whether to recommend a bill draft to repeal the marriage penalty credit.

Mr. Peyerl presented information ([Appendix B](#)) regarding taxation of earned income versus unearned income and a comparison of the estimated fiscal impact and actual amounts of tax relief under the individual income tax bracket adjustments enacted in House Bill No. 1158 (2023), including the impact on passthrough income related to income reported on K-1 forms and royalty income reported on 1099-MISC forms and the impact on resident versus nonresident returns. He provided analysis of data from income tax year 2022, including data related to:

- Taxable income based on category, including taxable interest, dividends, and capital gains.
- The proportion of tax attributable to royalty income.
- Taxable investment income.
- Incoming cash attributable to individual income tax in April and May of 2023, as compared to April and May of 2024.

Mr. Peyerl also noted:

- A tax on only investment income would be more progressive than the current individual income tax structure.
- An analysis of the actual fiscal impact of the individual income tax bracket adjustments enacted in House Bill No. 1158 is not yet available due to incomplete 2023 tax year data.

Committee members expressed concerns that providing additional income tax relief for out-of-state mineral owners who benefit from mineral extraction in the state would reduce an out-of-state mineral owner's contribution to state and local costs associated with mineral extraction. Committee members also noted previous income tax relief approaches have been effective and the committee intends to continue to study income tax relief for the remainder of the interim.

PROPERTY TAX RELIEF

Mr. Brian Kroshus, Tax Commissioner, provided information (Appendices [C](#) and [D](#)) regarding property tax relief following the enactment of House Bill No. 1158, including the expansion of the homestead tax credit and the implementation of the primary residence credit, and a summary of the number of primary residence credit applications received per county and the maximum anticipated allocation to each county for reimbursement of the primary residence credit for tax year 2024. He noted:

- The number of homestead tax credit applicants increased from 7,676 applicants in tax year 2022, to 14,627 applicants in tax year 2023.
- For purposes of estimating the fiscal impact of the primary residence credit in tax year 2025, the Tax Department estimated a maximum of 146,172 eligible primary residences.

In response to questions from committee members, Mr. Kroshus noted:

- Removing the annual application requirement for the primary residence credit may pose challenges, including the ability to accurately track ownership changes.
- The Tax Department plans to simplify the primary residence credit application process by allowing applicants who applied in the previous year to confirm or update information that automatically populates from the previous year's application.

Ms. Shelli Myers, State Supervisor of Assessments, Tax Department, provided information ([Appendix E](#)) regarding centrally assessed property and payments in lieu of property taxes.

Ms. Gordon presented a memorandum entitled [Property Tax Classification and Exemption Authority](#).

Ms. Linda Svihovec, Research Analyst, North Dakota Association of Counties, provided information ([Appendix F](#)) related to a survey of tax-exempt parcels in each county. She noted:

- 52 of 53 counties responded to the survey.
- 20 property tax exemption categories were reported in the survey.
- Nearly 60 percent of all exempt properties are farm related.
- Cass County reported the highest number of exempt parcels, and approximately 50 percent of the exemptions claimed in Cass County were related to new construction or new business.
- Renville County reported the fewest number of exempt parcels.

In response to questions from committee members, Ms. Lori Hanson, Director of Tax Equalization, Mountrail County, noted valuation data may not exist for certain tax-exempt property, such as farm residences, because tax-exempt property is not consistently assessed.

Mr. Aaron Birst, Executive Director, North Dakota Association of Counties, provided information ([Appendix G](#)) regarding the potential to impose limitations on the growth of property values, county budgets, or property taxes levied. He noted:

- The North Dakota Association of Counties would like to collaborate with the Legislative Assembly to improve the property tax system and develop workable property tax relief or reform.
- Counties levied approximately 23.3 percent of total property taxes in tax year 2021, and the top three categories of county expenditures were highway and public improvements, general government, and public safety.

- Counties are opposed to limitations on the growth of property valuations.
- The year-to-year impact of non-property tax revenue on a taxing district's budget should be considered if contemplating limitations on a taxing district's budget.
- It is important to consider differences unique to each county when contemplating whether implementing a limitation is appropriate.

In response to questions from committee members, Mr. Birst noted:

- Voters should be educated regarding the services funded by the property taxes levied by each taxing district, taxpayers should be encouraged to engage in the local budgeting process, and state and local officials should collaborate on property tax issues.
- A limitation on the growth of a county's property tax levies may inhibit a county's ability to quickly respond to the needs of the county.

Mr. Matt Gardner, Executive Director, North Dakota League of Cities, provided information regarding the potential to impose limitations on the growth of property values, city budgets, or property taxes levied. He noted:

- The North Dakota League of Cities is willing to work with the Legislative Assembly to find a solution to property tax issues.
- Identifying a limitation related to the growth of property tax which works well for each of the 355 unique cities with differing populations, economic climates, and needs will be difficult.
- The impact of a percentage limitation on the growth of a city's budget may be difficult to manage for small communities with relatively small budgets.
- Property tax revenue constitutes about 30 percent of a city's budget. If a limitation is imposed on property taxes levied by cities, the services impacted most likely would include public safety, road repair, and snow removal.

In response to a question from a committee member, Mr. Gardner provided a survey ([Appendix H](#)) including information related to the mill rates for various cities.

Ms. Amy De Kok, General Counsel, North Dakota School Boards Association, provided information ([Appendix I](#)) regarding the potential to impose limitations on the growth of property values, school district budgets, or property taxes levied. She noted:

- Schools are funded by a mix of federal, state, and local revenue sources.
- The state is constitutionally required to establish a public education system available to any school age student residing in the state, regardless of student ability, need, or circumstances, or the cost or expense to educate the students. Because of this obligation, reducing services would be difficult if a limitation is imposed on a school district budget or property tax levy.
- The largest general fund expenditure for schools is labor costs, including salaries and benefits of school staff. On average, more than 79 percent of general fund expenditures are used for this purpose.
- A unique consideration for school districts is that certain school employees are entitled to employment contracts under state law and have the right to negotiate terms and conditions of employment. Limited ability to make timely adjustments in staff, compensation, and benefits would pose difficulty for a school district if a limitation on the growth of property taxes levied is imposed.

In response to questions from committee members, Ms. De Kok noted:

- Annual increases in school salaries to address issues like teacher shortages and retention are common.
- The North Dakota School Boards Association supports local control and believes the local share in the K-12 education funding formula enhances the likelihood of local engagement in school issues.

Senator Rummel presented a proposed bill draft [[25.0141.02000](#)] to increase the primary residence credit amount from \$500 to \$1,000 and provide a proposed remedy to an issue related to application of the primary residence credit to mobile home taxpayers.

Ms. Gordon provided information ([Appendix J](#)) related to the provisions of Senator Rummel's proposed bill draft pertaining to mobile home taxpayers.

Comments by Interested Persons

Mr. Don Clement, Bismarck, provided testimony related to the committee's study of property tax relief. He noted:

- He favors reforming rather than abolishing property tax.
- It is important to review the property tax exemptions provided under current law to determine whether the state should continue to allow the exemptions.
- Many constituents would like to work with the Legislative Assembly to reform property tax.

COMMITTEE DISCUSSION

Committee members noted:

- Concerns regarding the potential unintended consequences of imposing limitations on the growth of taxing district budgets or property taxes levied, including those unique to certain taxing districts.
- There are concerns regarding imposing limitations on the growth of property values because of equalization rules.
- Increasing the primary residence credit would communicate the committee's interest in pursuing targeted relief efforts toward property taxes levied against primary residences.
- Combining property tax relief efforts with reform efforts may be the most effective method to control the growth of property tax levies.
- Interested persons should participate in the effort to find a solution to property tax concerns.
- Implementing change incrementally may be prudent to avoid unintended consequences that may be associated with a more dramatic change.

No further business appearing, Chairman Kannianen adjourned the meeting at 3:32 p.m.

Megan J. Gordon
Code Revisor

ATTACH:10