

**State Tax Commissioner  
Budget No. 127  
House Bill Nos. 1006, 1050, Senate Bill No. 2157**

	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
2005-07 executive budget (bills as introduced)	133.00	\$24,996,259	\$120,000	\$25,116,259
<b>2005-07 legislative appropriations</b>	<b>133.00</b>	<b>22,485,152</b>	<b>14,120,000</b>	<b>36,605,152</b>
Legislative increase (decrease) to executive budget	0.00	(\$2,511,107)	\$14,000,000	\$11,488,893
Legislative increase (decrease) to 2003-05 appropriations	(4.00)	\$1,330,457	\$14,004,956	\$15,335,413

**SUMMARY OF LEGISLATIVE CHANGES TO THE EXECUTIVE BUDGET AND MAJOR FUNDING ITEMS**

**Salaries and Wages**

The legislative action affecting the recommended appropriation for the State Tax Commissioner is in accordance with legislative salary and fringe benefits guidelines as contained in House Bill No. 1050.

	<b>Major Items FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
The legislative action:				
Added funding for state employee salary increases		\$55,491		\$55,491
Reduced funding recommended in the executive budget for state employee health insurance premiums from \$559.15 to \$553.95 per month per policy		(16,598)		(16,598)
Added funding for an integrated tax processing system (see <b>Integrated Tax Processing System</b> section below)			\$14,000,000	14,000,000
Decreased funding for the homestead tax credit from \$7 million as proposed in the executive recommendation to \$4.5 million, which is an increase of \$500,000 from the 2003-05 biennium appropriation (see <b>Homestead Tax Credit</b> section below)		(2,500,000)		(2,500,000)
Decreased funding for operating expenses		(50,000)		(50,000)
<b>Total</b>	<b>0.00</b>	<b>(\$2,511,107)</b>	<b>\$14,000,000</b>	<b>\$11,488,893</b>

**FTE Changes**

The Legislative Assembly did not change the executive recommendation providing for 133 FTE positions, a decrease of 4 FTE positions from the 2003-05 biennium. The department, in its budget request, did not request funding for four vacant positions.

**Integrated Tax Processing System**

Section 6 provides that the State Tax Commissioner may purchase, finance the purchase, or lease equipment, software, and services to establish an integrated tax processing system for use by the Tax Commissioner's office. The principal amount of any financing agreement entered into by the Tax Commissioner may not exceed \$14,000,000. The repayment of any financing agreement entered into by the Tax Commissioner is to begin during the 2007-09 biennium and repayment amounts, including principal and interest, are to be incorporated in the Tax Commissioner's biennial budget requests to the Legislative Assembly. The Tax

Department estimates the new system will potentially yield \$2.5 million per year in additional revenues and provide estimated savings in operating costs of \$220,000 per year. The primary areas where the additional revenues will be generated relate to increased discovery of nonresident taxpayers through enhanced records-matching, better tools for prioritizing collections and audit records, and a general increase in the number of audits due to better access to data and more effective workflow management. The net result is a project payback of approximately five years.

#### **Homestead Tax Credit**

**Homestead tax credit** - Senate Bill No. 2157 provides for changes to the homestead tax credit for taxable years beginning after December 31, 2004, for ad valorem property taxes and for taxable years beginning after December 31, 2005, for mobile home taxes. **Under current law, pursuant to North Dakota Century Code Section 57-02-08.1, the homestead tax credit provides:**

- A homeowner or renter may not have income exceeding \$14,000 per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$2,000 (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to a \$44,400 reduction in the value of the house; and
- For eligible renters making \$14,000 or less per year, the program provides a direct payment of the amount by which 20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$240.

**Senate Bill No. 2157 provides for statutory changes to the homestead tax credit as follows:**

- A homeowner or renter may not have income exceeding \$14,500 per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$3,038 (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to a \$67,500 reduction in the value of the house; and
- For eligible renters making \$14,500 or less per year, the program provides a direct payment of the amount by which 20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$240.

#### **Related Legislation**

**Salary of Tax Commissioner** - Section 24 of House Bill No. 1015 provides statutory changes to North Dakota Century Code Section 57-01-04, relating to the salary of the Tax Commissioner. The Legislative Assembly authorized 2005-07 biennium salary increases of 4 percent, effective July 1, 2005, and 4 percent effective July 1, 2006, for elected officials. The Tax Commissioner's salary is to be increased from the current level of \$73,821 to \$76,774, effective July 1, 2005, and \$79,845, effective July 1, 2006.

**Streamlined Sales and Use Tax Agreement** - Senate Bill No. 2050 changes the implementation date for compliance with the Streamlined Sales and Use Tax Agreement from December 31, 2005, to September 30, 2005. House Bill No. 1043 provides sales and use tax amendments to conform with the provisions of the Streamlined Sales Tax Act. The initial implementation date of December 31, 2005, for the agreement was estimated to reduce sales tax collections by \$414,000 for the 2005-07 biennium. By moving the implementation date to September 30, 2005, there is an additional negative revenue impact of \$69,000.

**Refunds or credits for taxes based on claim of unconstitutionality** - Senate Bill No. 2132 provides that a claim for a refund or credit of taxes based on the claim that the tax is unconstitutional must be made within 180 days of the due date of the return or payment of the tax, whichever occurs first, for which the refund or credit is claimed.