

**State Tax Commissioner
Budget No. 127
Senate Bill Nos. 2006, 2032, House Bill No. 1014**

	FTE Positions	General Fund	Other Funds	Total
2007-09 executive budget (bills as introduced)	133.00	\$28,948,998	\$1,700,000	\$30,648,998
2007-09 legislative appropriations	133.00	32,538,153¹	2,800,000	35,338,153
Legislative increase (decrease) to executive budget	0.00	\$3,589,155	\$1,100,000	\$4,689,155
Legislative increase (decrease) to 2005-07 appropriations	0.00	\$10,053,001	(\$11,320,000)	(\$1,266,999)

¹This amount includes \$5,356,702 of one-time funding. Excluding this amount, the agency's ongoing general fund appropriation is \$27,181,451.

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 Senate Bill No. 2189.

	Major Items			
	FTE Positions	General Fund	Other Funds	Total
The legislative action:				
Reduced funding recommended in the executive budget relating to retiree health credit contributions		(\$14,845)		(\$14,845)
Provided additional funding for the expanded homestead tax credit program (Senate Bill No. 2032)		3,604,000		3,604,000
Provided special funds spending authority from unexpended loan funds relating to the integrated tax processing system for costs associated with implementing property tax relief provisions (Senate Bill No. 2032)			\$1,100,000	1,100,000
Total	0.00	\$3,589,155	\$1,100,000	\$4,689,155

FTE Changes

The Legislative Assembly did not change the executive recommendation which included funding for 133 FTE positions, the same as the 2005-07 biennium.

One-Time Funding

In Section 7 of Senate Bill No. 2006, the Legislative Assembly identified \$5,356,702 from the general fund for principal and interest costs for the integrated tax processing system as a one-time funding item. This amount is not to be considered part of the agency's base budget for preparing the 2009-11 executive budget and the Tax Commissioner is to report to the Appropriations Committees during the 2009 legislative session on the use of this funding.

Loan Repayments for Integrated Tax Processing System

Integrated tax processing system - The 2005 Legislative Assembly authorized the Tax Commissioner to 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 million. The Tax Commissioner entered into an agreement with the Bank of America to finance, over a six-year period, the purchase of GenTech commercial "off-the-shelf" tax processing software from Fast Enterprises. The repayment schedule will begin in July 2007. The 2007 Legislative Assembly appropriated \$5,356,702 from the general fund for principal (\$4,083,705) and interest (\$1,272,997) costs for the integrated tax processing system during the 2007-09 biennium.

Other Sections in Senate Bill No. 2006

Motor vehicle fuel taxes - Section 4 provides for a transfer of \$1,274,056 to the general fund, out of motor vehicle fuel taxes collected, which is the amount received by the Tax Commissioner for expenses incurred in the collection of the motor vehicle fuels and special fuels taxes and administration of these taxes.

Carryover authority - Section 5 provides for the Tax Commissioner to carry over unexpended 2005-07 biennium funding for the integrated tax system to the 2007-09 biennium.

Salary of Tax Commissioner - Section 6 provides statutory changes to North Dakota Century Code Section 57-01-04 relating to the salary of the Tax Commissioner. The Legislative Assembly authorized 2007-09 biennium salary increases of 4 percent effective July 1, 2007, and 4 percent effective July 1, 2008, for elected officials. The Tax Commissioner's salary is to be increased from the current level of \$79,845 to \$83,039 effective July 1, 2007, and to \$86,360 effective July 1, 2008.

Related Legislation

Senate Bill No. 2032 - This bill includes provisions relating to:

Homestead "property" tax credit - Section 1 of Senate Bill No. 2032 provides for the following changes to the homestead tax credit program for the elderly and disabled:

- A homeowner or renter may not have income exceeding \$17,500 (was \$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 \$3,375 (was \$3,038) (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to a \$75,000 (was \$67,500) reduction in the value of the house; and
- For eligible renters making \$17,500 (was \$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.

Section 10 of the bill provides for an appropriation of \$8,104,000 from the general fund for the homestead tax program, an increase of \$3,604,000 from the 2005-07 biennium appropriation of \$4.5 million.

Real estate tax statements - Section 4 of Senate Bill No. 2032 provides that for taxable years beginning after December 31, 2006, property tax statements must include, for the taxable year to which the tax statement applies and the two immediately preceding taxable years, the property tax levy in dollars against the parcel by the county and school district and any city or township that levied taxes against the parcel.

Marriage penalty credit - Section 5 of Senate Bill No. 2032 provides married couples filing a joint North Dakota income tax return to receive an income tax credit of up to \$300 per couple to offset the "marriage income tax penalty." The marriage penalty credit is anticipated to reduce general fund revenues by \$8,850,000 during the 2007-09 biennium.

Homestead "income" tax credit - Section 6 of Senate Bill No. 2032 provides for:

- In addition to any other credit or deduction allowed by law for a homeowner, an individual income tax credit is authorized for taxable years 2007 and 2008 in the amount of 10 percent of property taxes or mobile home taxes that become due during the taxable year.
- The term "property taxes" does not include special assessments for purposes of determining the income tax credit.

- The term "homestead" means the dwelling occupied by the individual as the individual's primary residence and, if that residence is in this state, any residential or agricultural property owned by that individual in this state.
- The amount of the credit may not exceed the lesser of the taxpayer's income tax liability or \$1,000 for married persons filing a joint return or \$500 for a single individual or married individuals filing separate returns. The unused amount of the credit may be carried forward for up to five years or the taxpayer may request that the Tax Commissioner issue the taxpayer a certificate in the amount of the excess which may be used by the taxpayer against property or mobile home tax liability of the taxpayer during the ensuing taxable year.
- If, on November 15, 2008, the amount of tax credits claimed exceeds \$47 million, the Tax Commissioner shall reduce the rate of the credit based on the percentage by which the credits claimed exceeds \$47 million.
- The Tax Commissioner is to report any adjustments to the homestead income tax credit to the Budget Section for review.
- The homestead "income" tax credit is anticipated to reduce general fund revenues by \$97 million during the 2007-09 biennium.

Commercial property income tax credit - Section 7 of Senate Bill No. 2032 provides for:

- In addition to any other credit or deduction allowed by law for a property owner, an individual or corporation is authorized for taxable years 2007 and 2008 in the amount of 10 percent of the property taxes or mobile home taxes that become due during the taxable year.
- The term "property taxes" does not include special assessments for purposes of determining the income tax credit.
- The amount of the credit may not exceed the lesser of the taxpayer's income tax liability or \$1,000 for married persons filing a joint return or \$500 for a single individual or married individuals filing separate returns. The unused amount of the credit may be carried forward for up to five years.
- Persons owning property together are each entitled to a percentage of the credit equal to their ownership interests in the property.
- If, on November 15, 2008, the amount of tax credits claimed exceeds \$7 million, the Tax Commissioner shall reduce the credit cap based on the percentage by which the credits claimed exceeds \$7 million.
- The Tax Commissioner is to report any adjustments to the commercial property income tax credit to the Budget Section for approval.
- The commercial property income tax credit is anticipated to reduce general fund revenues by \$15 million during the 2007-09 biennium.

Mobile home tax statements - Section 9 of Senate Bill No. 2032 provides that for taxable years beginning after December 31, 2007, mobile home tax statements must include, for the taxable year to which the tax statement applies and the two immediately preceding taxable years, the property tax levy in dollars against the mobile home by the county and school district and any city or township that levied taxes against the mobile home.

Property tax reform study - Section 13 of Senate Bill No. 2032 provides for a Legislative Council study in each interim through 2012 of the feasibility and desirability of property tax reform and providing property tax relief to taxpayers of the state, with the goal of reduction of each taxpayer's annual property tax bill to an amount that is no more than 1.5 percent of the true and full value of property, and including examination of the proper measure of education funding from local taxation and state resources and the variability of funding resources among taxing districts and examination of improved collection and reporting of property tax information to identify residency of property owners with minimized administrative difficulty.

Senate Bill No. 2088 - This bill expands the definition of "permanently and totally disabled" for purposes of the **homestead "property" tax credit** to include individuals with a written determination of disability from the Social Security Administration.

Senate Bill No. 2172 - This bill relates to the **homestead "property" tax exemption** for disabled veterans. A paraplegic disabled veteran of the United States armed forces or any veteran who has been awarded specially adapted housing by the Veterans Administration, or the unremarried surviving spouse if such veteran is deceased, is allowed a property tax exemption on the first \$120,000 of true and full valuation of the fixtures, building, and improvements. A disabled veteran of the United States armed forces who was discharged under honorable conditions or who retired from the armed forces of the United States with an armed forces service-connected disability of 50 percent or greater, or the unremarried surviving spouse if the veteran is deceased, is allowed a property tax exemption equal to the percentage of the disabled veteran's certified rated service-connected disability, applied against the first \$120,000 of true and full valuation of fixtures, buildings, and improvements.

House Bill No. 1018 - Section 7 of this bill provides for the Tax Commissioner to conduct an audit of the **ethanol production incentive program** during the 2007-09 biennium.

House Bill No. 1049 - This bill provides a sales tax reduction for natural gas sold for **heating purposes** and a special fuels tax reduction for fuels used for heating purposes effective July 1, 2008, and an exemption effective July 1, 2009, and removes the sales tax on coal used for heating purposes as of July 1, 2007.

House Concurrent Resolution No. 3057 - This resolution provides for a Legislative Council study of **corporate and individual income tax laws** to determine the feasibility and desirability of providing income tax benefits for employers to encourage expansion of employment opportunities in the state.

Senate Concurrent Resolution No. 4021 - This resolution provides for the Legislative Council to study the **income tax laws**, with emphasis on adjustments necessary to minimize or negate the impact to any taxpayer of establishing a single, uniform income tax return for all individuals.