**State Tax Commissioner**
**Budget 127**
**Senate Bill No. 2006**

| | FTE Positions | General Fund | Other Funds | Total |
|---|---|---|---|---|
| 2011-13 legislative appropriation | 134.00 | $39,238,449[1] | $10,000 | $39,248,449 |
| 2009-11 legislative appropriation | 133.00 | 46,326,586 | 196,000 | 46,522,586 |
| 2011-13 appropriation increase (decrease) to 2009-11 appropriation | 1.00 | ($7,088,137) | ($186,000) | ($7,274,137) |

[1]This amount includes $1 million of one-time funding. Excluding this amount, the agency's ongoing general fund appropriation is $38,238,449.

| Item Description | Status/Result |
|---|---|
| **FTE changes - Contingent funding** - The Legislative Assembly authorized the Tax Commissioner to reclassify 1 FTE project manager position to a compliance officer II position. The Legislative Assembly also added funding for one contingent FTE compliance officer II position, upon Emergency Commission approval, for the purpose of performing additional compliance projects. The Emergency Commission may approve the use of these funds and the additional FTE position only if the Tax Department certifies that compliance projects conducted by the new compliance officer authorized by the Legislative Assembly in 2011 have resulted in the collection of at least $500,000, during the nine-month period beginning on the date the new compliance officer position is filled. | The Tax Department reclassified 1 FTE project manager position to a compliance officer II FTE position and filled the compliance officer II position in October 2011. The Tax Department anticipates meeting the $500,000 collection level from compliance projects conducted by the new compliance officer by June 2012 and will seek Emergency Commission approval for the contingent compliance officer II position. |
| **One-time funding** - The Legislative Assembly identified $1 million of one-time funding from the general fund for the 2011-13 biennium for GenTax computer system upgrades. This amount is not to be considered part of the agency's base budget for preparing the 2013-15 executive budget, and the Tax Commissioner is to report to the Appropriations Committees during the 2013 legislative session on the use of this funding. | The Tax Department anticipates completing the GenTax computer system upgrades by June 2012 within the $1 million of funding provided. |
| **Grant to North Dakota State University (NDSU)** - Section 5 of 2011 Senate Bill No. 2006 provides an exemption from North Dakota Century Code Section 54-44.1-11 of up to $50,000 of the Tax Commissioner's unspent general fund authority for the 2009-11 biennium. The funds may be distributed by the Tax Commissioner as a grant to NDSU Department of Agribusiness and Applied Economics for the purpose of converting the software of the core model used for the preparation of agricultural land valuations as required under Section 57-02-27.2 during the 2011-13 biennium. | As of April 2012, The Tax Department has spent $4,948 of the $50,000 for a grant to NDSU Department of Agribusiness and Applied Economics for conversion of the core model software. North Dakota State University has estimated the conversion to cost $48,978. |

**Homestead tax credit program and disabled veteran property tax credit program -** The homestead tax credit program provides tax credits to certain homeowners who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age. Renters who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age may qualify for a rent refund. The disabled veteran property tax credit program provides tax credits to disabled veterans with an armed forces service-connected disability of 50 percent or greater.

House Bill No. 1217 (2011) includes the following provisions to expand the disabled veteran property tax credit program:

- Include disabled veterans who have an extraschedular rating to include individual unemployability that brings the veteran's total disability to 100 percent as determined by the Department of Veterans' Affairs.
- Extend the property exemption for unremarried surviving spouses who receive Department of Veterans' Affairs dependency and indemnity compensation to 100 percent of the first $5,400 in taxable valuation. (The exemption was previously based on the disabled veteran's percentage of disability.)
- Replace $120,000 of true and full property value with $5,400 of taxable valuation for determining tax credit.

Senate Bill No. 2006 (2011) includes an appropriation of $8.793 million from the general fund for expenditures relating to the homestead tax credit program.

Senate Bill No. 2006 (2011) includes an appropriation of $4.244 million from the general fund for expenditures relating to the disabled veteran property tax credit program. Provisions of 2011 House Bill No. 1217 are anticipated to require an additional $215,000 of funding for the program for a total of $4.459 million relating to the disabled veteran property tax credit program for the 2011-13 biennium. The additional $215,000 was not appropriated.

The schedules below present the number of eligible homeowners, renters, disabled veterans, and the payments made in recent years:

| | Number Eligible for Program | | | |
|---|---|---|---|---|
| Year | Homeowners | Renters | Disabled Veterans[1] | Total |
| 2002 | 4,341 | 1,329 | | 5,670 |
| 2003 | 4,060 | 1,288 | | 5,348 |
| 2004 | 3,923 | 1,335 | | 5,258 |
| 2005 | 3,817 | 1,322 | | 5,139 |
| 2006 | 3,516 | 1,273 | | 4,789 |
| 2007 | 3,677 | 1,305 | | 4,982 |
| 2008 | 3,466 | 1,998 | | 5,464 |
| 2009 | 3,715 | 2,051 | | 5,766 |
| 2010 | 3,977 | 2,400 | 1,513 | 7,890 |
| 2011 | 4,451 | 2,367 | 1,764 | 8,582 |

[1]Prior to 2009 disabled veterans were given a property tax exemption resulting in a revenue loss to the local governments which was not reimbursed by the state.

| | Payments Made Under Program | | | |
|---|---|---|---|---|
| Year | Homeowners | Renters | Disabled Veterans[1] | Total |
| 2002 | $1,768,001 | $173,754 | | $1,941,755 |
| 2003 | $1,676,737 | $172,224 | | $1,848,961 |
| 2004 | $1,659,707 | $185,807 | | $1,845,514 |
| 2005 | $1,655,555 | $186,896 | | $1,842,451 |
| 2006 | $2,025,060 | $182,947 | | $2,208,007 |
| 2007 | $2,008,310 | $188,418 | | $2,196,728 |
| 2008 | $2,342,186 | $287,682 | | $2,629,868 |
| 2009 | $2,396,968 | $302,632 | | $2,699,600 |
| 2010 | $2,912,719 | $550,955 | $1,627,763 | $5,091,437 |
| 2011 | $3,375,376 | $584,610 | $1,961,238 | $5,921,224 |

[1]Prior to 2009 disabled veterans were given a property tax exemption resulting in a revenue loss to the local governments which was not reimbursed by the state.

**Individual and corporate income tax relief**

**House Bill No. 1047 (2011)** amends the corporate and individual income tax rates. Corporate income tax rates are reduced by 19.5 percent and individual income tax rates by 17.9 percent. The reduced income tax rate provisions of House Bill No. 1047 are estimated to reduce individual income tax collections by $120 million and corporate income tax collections by $25 million during the 2011-13 biennium.

At the time of this report, information was not available from the Tax Department on the total anticipated reduction in general fund revenue from the amended income tax rates.

**Senate Bill No. 2210 (2011)** provides tax credits for contributions to a housing incentive fund. The tax credits are anticipated to reduce individual income tax collections by $1.33 million and corporate income tax collections by $1.33 million during the 2011-13 biennium. The November 2011 special legislative session increased the tax credit available to financial institutions, corporations, and individuals for contributions to housing incentive funds from 20 percent per taxable year to 100 percent and increased the maximum allowable credits from $4 million per biennium to $15 million for the 2011-13 biennium only. This results in an estimated general fund revenue reduction of $11 million for the 2011-13 biennium.

At the time of this report, information was not available from the Tax Department on the total anticipated reduction in general fund revenue from contributions to a housing incentive fund. As of March 15, 2012, the Housing Finance Agency has received contributions to the fund totaling $6.4 million.

**Senate Bill No. 2218 (2011)** raises the maximum aggregate amount of income tax credits available for renaissance zone investments from $7.5 million to $8.5 million. This bill is anticipated to reduce income tax collections by a maximum of $1 million during the 2011-13 biennium.

At the time of this report, information was not available from the Tax Department on the total anticipated reduction in general fund revenue from the increase in the maximum aggregate amount of income tax credits available for renaissance zone investments.

**Change in federal tax law (2011)** in December 2010 allows businesses to deduct from their federal gross income tax the entire cost of capital investments in machinery and equipment rather than depreciating the cost over several years for purchases made between September 8, 2010, and December 31, 2011. For purchases in calendar year 2012, businesses can deduct 50 percent of the cost of capital investments and then apply regular depreciation schedules to the remaining values of the capital investment. This change in federal tax law is anticipated to reduce state corporate income tax collections by $46 million during the 2011-13 biennium.

At the time of this report, information was not available from the Tax Department on the total anticipated reduction in general fund revenue from the deduction of capital investment costs.