TAX RELIEF ADVISORY COMMITTEE

Section 5 of House Bill No. 1158 (2023) directed the Legislative Management to appoint a Tax Relief Advisory Committee to study tax relief, including income and property tax relief. The study required consideration of the following information to be provided by the Tax Department:

- The estimated and actual fiscal impact of historical income and property tax relief provided by the Legislative Assembly;
- An analysis of the tax relief provided by the 68th Legislative Assembly through individual income tax rate changes, a primary residence credit, and an expansion of the homestead credit, including the estimated fiscal impact for each method of tax relief and the effect of the income tax rate changes on passthrough income related to income reported on K-1 forms and royalty income reported on 1099-MISC forms;
- Options to implement a flat individual income tax rate, including the estimated fiscal impact of the options; and
- Options to adjust the individual income tax structure, including the estimated fiscal impact of the options.

The study also required the Tax Department to provide an update on the progress of implementing the primary residence credit, including the status of information technology changes and the amount spent on advertising the credit. The study allowed the committee to consider input from local taxing districts regarding the administration of the primary residence credit and the homestead credit.

Committee members were Senators Jordan L. Kannianen (Chairman), Dale Patten, and Dean Rummel and Representatives Craig Headland, Glenn Bosch, and Jared Hagert.

BACKGROUND

Income Tax Relief Background

Individual Income Tax Rate History

The committee reviewed the history of individual income tax rates from 1919 to date. The committee was informed individual income tax rates established in 2001 for the five income brackets for each filing status were adjusted by legislation enacted in 2009, 2011, 2013, 2015, and 2023. The following schedule provides information on the lowest and highest individual income tax rate for the 2007-09 biennium through the 2015-17 biennium and the 2023-25 biennium and the percentage decrease in individual income tax rates from biennium to biennium:

	Individual Income Tax Rates as a Percentage of Taxable Income					
	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium[1]	2023-25 Biennium
Range of tax rates	2.10% to 5.54%	1.84% to 4.86%	1.51% to 3.99%	1.22% to 3.22%	1.10% to 2.90%	0.00% to 2.50%
Percentage increase (decrease) from prior biennium		(12.3%)	(17.9%)	(19.3%)	(9.9%)	N/A[2]

[1]The Legislative Assembly did not change the individual income tax rates for the 2017-19, 2019-21, or 2021-23 bienniums. During the November 2021 special legislative session, the Legislative Assembly provided an individual income tax credit for North Dakota residents of up to $700 for married filing jointly returns and up to $350 for all other filing types; however, the credit did not affect the income tax rates.

[2]The 2023 Legislative Assembly reduced the number of individual income tax brackets from five to three and reduced the rates in each bracket. As a result, the percentage change from the prior biennium cannot be calculated.

Individual income tax rates were adjusted most recently in 2023 following the enactment of House Bill No. 1158, which consolidated the individual income tax brackets from five brackets to three brackets and reduced the income tax rates with income in the first bracket exempt from tax. Rates in all brackets were reduced from a range of 1.1 percent to 2.9 percent to a range of 0 percent to 2.5 percent of taxable income as follows:

Individual Income Tax Brackets Following Enactment of House Bill No. 1158						
		Annual Taxable Income Over				
Tax Bracket	Tax Rate	Single Filer Return	Married Filing Jointly Return	Married Filing Separately Return	Head of Household Return	Qualifying Widow(er) Return
First	0.00%	$0	$0	$0	$0	$0
Second	1.95%	$44,725	$74,750	$37,375	$59,950	$74,750
Third	2.50%	$225,975	$275,100	$137,550	$250,550	$275,100

The following schedule provides information on the estimated fiscal effect of individual income tax rate reductions based on analysis contained in the fiscal notes associated with the corresponding legislation:

	Estimated Effect of Individual Income Tax Rate Reductions				
	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium	2023-25 Biennium
Estimated tax relief from fiscal notes	$90,000,000[1]	$120,000,000[2]	$200,000,000[3]	$87,000,000[4]	$358,297,204[5]

[1]The estimated individual income tax relief for the 2009-11 biennium reflects the fiscal note for Senate Bill No. 2199 (2009).

[2]The estimated individual income tax relief for the 2011-13 biennium reflects the fiscal note for House Bill No. 1047 (2011).

[3]The estimated individual income tax relief for the 2013-15 biennium reflects the fiscal note for Senate Bill No. 2156 (2013).

[4]The estimated individual income tax relief for the 2015-17 biennium reflects the fiscal note for Senate Bill No. 2349 (2015).

[5]The estimated individual income tax relief for the 2023-25 biennium reflects the fiscal note for House Bill No. 1158 (2023).

Individual Income Tax Deductions, Credits, and Exempt Activities

The committee reviewed the 19 individual income tax deductions and 25 individual income tax credits. The committee also reviewed individual income tax-exempt activities.

Individual Income Tax Burden

The committee was informed North Dakota individual income tax collections for fiscal year 2021 were just under $468 million and individual income tax collections for fiscal year 2022 were just under $459 million. A Census Bureau per capita comparison of individual income tax collections for fiscal year 2021 ranks North Dakota 40th out of 43 states that impose individual income tax collections. The comparison indicated 30 states have a per capita individual income tax burden of at least double North Dakota's per capita individual income tax burden. North Dakota is ranked 27th out of 50 states in the individual income tax category on the Tax Foundation's *2023 State Business Tax Climate Index*, with an overall tax climate index rank of 17th out of 50 states. However, the *2023 State Business Tax Climate Index* was published before House Bill No. 1158 (2023) was enacted.

Corporate Income Tax Rate History

The committee reviewed the history of corporate income tax rates since 1919. The Legislative Assembly reduced corporate income tax rates in the 2009, 2011, 2013, and 2015 legislative sessions. The following schedule provides information on the lowest and highest corporate income tax rate for the 2007-09 biennium through the 2015-17 biennium and the percentage decrease in corporate income tax rates from biennium to biennium:

	Corporate Income Tax Rates as a Percentage of Taxable Income				
	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium[1]
Range of tax rates	2.60% to 6.50%	2.10% to 6.40%[2]	1.68% to 5.15%	1.48% to 4.53%	1.41% to 4.31%
Percentage increase (decrease) from prior biennium		N/A[2]	(19.5%)	(11.9%)	(4.9%)

[1]The Legislative Assembly did not change the corporate income tax rates for the 2017-19, 2019-21, 2021-23, or 2023-25 bienniums. As a result, the rates shown for the 2015-17 biennium reflect the current rates for the 2023-25 biennium.

[2]The 2009 Legislative Assembly reduced the number of corporate income tax brackets from five to three and reduced the tax rates in each bracket. As a result, the percentage change from the prior biennium cannot be calculated.

Corporate income tax rates have not been altered since the 2015 legislative session. Thus, the current corporate income tax rates applicable to corporations range from 1.41 to 4.31 percent.

The following schedule provides information on the estimated fiscal effect of corporate income tax rate reductions based on analysis contained in the fiscal notes associated with the corresponding legislation:

	Estimated Effect of Corporate Income Tax Rate Reductions			
	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium
Estimated effect based on fiscal notes	$10,000,000[1]	$25,000,000[2]	$50,000,000[3]	$21,000,000[4]

[1]The estimated corporate income tax relief for the 2009-11 biennium reflects the fiscal note for Senate Bill No. 2199 (2009).

[2]The estimated corporate income tax relief for the 2011-13 biennium reflects the fiscal note for House Bill No. 1047 (2011).

[3]The estimated corporate income tax relief for the 2013-15 biennium reflects the fiscal note for Senate Bill No. 2156 (2013).

[4]The estimated corporate income tax relief for the 2015-17 biennium reflects the fiscal note for Senate Bill No. 2349 (2015). The amount shown does not include the estimated impact of Senate Bill No. 2292 (2015), which provided an alternate method for apportioning income.

Corporate Income Tax Deductions, Additions, Credits, Reporting Requirements, and Methods

The committee reviewed the six corporate income tax deductions, five corporate income tax additions, and 19 corporate income tax credits. The committee also reviewed corporations exempt from the corporate income tax, corporate income tax-exempt activities, information regarding combined reporting requirements for corporations, and an overview of the "water's edge" election.

Corporate Income Tax Burden

The committee was informed North Dakota corporate income tax collections for fiscal year 2021 were just under $149 million and the corporate income tax collections for fiscal year 2022 were just under $224 million. According to the Tax Foundation, which provides a comparison of state corporate income tax rates as of January 1, 2023, North Dakota's top corporate income tax bracket rate of 4.31 percent was the fourth lowest nationally of states that impose a corporate income tax, with only North Carolina, Oklahoma, and Missouri reporting lower corporate income tax rates. North Dakota was ranked 9th out of 50 states in the corporate tax category on the Tax Foundation's *2023 State Business Tax Climate Index*, with an overall tax climate index rank of 17th out of 50 states.

Past Income Tax Interim Studies

The committee reviewed past interim studies related to individual or corporate income tax, including studies conducted during the 2019-20 and 2021-22 interims.

Property Tax Relief Background

Property Tax Overview

The committee was informed property tax is levied in every state and provides a vital source of revenue for local governments. In North Dakota, just over $1.23 billion in property tax was levied in 2021 for payment in 2022. Property tax is levied on real property, personal property, or both, depending on the state. The tax on personal property was abolished in North Dakota in 1970.

Classification and valuation marks the first step in the property tax cycle. Property is classified as either residential, commercial, agricultural, or centrally assessed. Assessors apply various calculations to the true and full value of property in each classification to arrive at a property's taxable value.

A property owner dissatisfied with the valuation of property has the right to contest the assessment to the local, county, and state boards of equalization or through the tax abatement process. Equalization is the process provided by law to adjust property assessments to be consistent with market value or agricultural value. A property owner may present evidence to the local board of equalization to argue for a reduction in the valuation of the person's property. In place of the equalization process, a property owner may elect to use a more formal abatement process in contesting a property tax assessment. Several layers of review are involved in the abatement process, which may culminate in an appeal of the decision of the board of county commissioners to the district court and then to the North Dakota Supreme Court.

Once valuations are finalized following the equalization process, each taxing district prepares a preliminary budget based on anticipated expenditures for the upcoming year. The amount budgeted by a taxing district may not result in a tax levy exceeding the levy limitations established by statute. The county treasurer has until December 26 to mail a property tax statement to the owner of each parcel of real property. Property statements must include the true and full value of the property; the total mill levy applied to the property; the amount of tax levied in dollars against the parcel by the county, school district, city, and township for the current year and the 2 immediately preceding taxable years; and the dollar amount of property tax savings realized by the property owner through legislative tax relief. Property taxes are due January 1 following the year of assessment and are payable without penalty until March 1 of the year in which due. The committee also reviewed information regarding payments in lieu of property tax.

Property Tax Statistics

The committee reviewed information published by the Tax Department, which indicated $1,231,361,971 in property tax was levied in 2021 for payment in 2022. This amount represents a 4.1 percent increase over the total amount levied for payment in 2021. Additional information published by the Tax Department indicated the majority of the property tax levied in 2021 was levied by school districts, followed by the amount of property tax levied by cities, counties, smaller miscellaneous taxing districts, and townships.

Traditional Controls on Growth of Property Tax Levies

In studying the growth of property tax levies, the committee reviewed the traditional controls that serve to limit the growth of levies. These controls include state law, governing body self-restraint, and taxpayer and citizen participation. Various restricting factors are found in state law, including constitutional and statutory provisions imposing mill levy limits, voter-approval requirements, and debt limits. In addition, statutory provisions have provided for property tax relief and state assumption of program costs for some local government functions. Governing body self-restraint also serves as a traditional limiter on the growth of property tax levies. Local elected officials are presumed to act in the best interests of the political subdivision and taxpayers. Political considerations relating to being elected or re-elected serve to restrain local spending to a level deemed acceptable by the majority of voters. Local elected officials also are taxpayers of the taxing district they serve and likely do not want an excessive property tax levy any more than other taxpayers. Another limiting factor related to governing body restraint involves taxpayer and citizen participation. Taxpayers subject to property tax tend to voice their preferences to elected officials both through direct communication and by casting votes on ballot measures relating to taxation and spending.

Significant Property Tax Reform and Relief Legislation

The committee undertook a broad review of significant property tax reform and relief legislation from 2007 through 2023, including information related to the estimated fiscal impact of property tax relief programs provided by the Legislative Assembly.

In 2007, the Legislative Assembly provided temporary property tax relief through the income tax system through the passage of Senate Bill No. 2032. The bill provided income tax credits in the amount of a percentage of property taxes paid on a residential property occupied as a primary residence and for agricultural and commercial property owned by an individual whose primary residence was in North Dakota. The income tax relief provided $115 million of benefit to taxpayers but the method of delivering the relief created some confusion and administrative difficulties. The relief was not extended in the 2009 legislative session.

In 2009, the Legislative Assembly provided property tax relief through the passage of Senate Bill No. 2199 by reducing school district property tax levies and appropriating $295 million for the biennium for allocation to school districts through mill levy reduction grants.

In 2011, the Legislative Assembly provided property tax relief through the passage of House Bill No. 1047 by reducing up to 75 mills of school district levy authority and appropriating $341,790,000 for the biennium for allocation to school districts through mill levy reduction grants.

In 2013, the Legislative Assembly provided property tax reform or relief through the passage of House Bill Nos. 1013, 1015, 1306, and 1107 and Senate Bill Nos. 2036 and 2171. House Bill No. 1013 provided a substantial expansion of state funding for elementary and secondary education, including state payment of up to 50 mills of school district property tax levies and a reduction of up to 75 mills in school district property tax levies. Senate Bill No. 2036 created a new approach to property tax relief funding by providing a state-paid credit against property taxes and mobile home taxes in the amount of 12 percent of the taxes levied by all taxing districts against the property. House Bill Nos. 1015 and 1306 and Senate Bill No. 2171 provided property tax relief through the homestead credit and disabled veterans' credit in an amount estimated to exceed $27 million for the biennium. House Bill No. 1107 provided the withholding of state aid distribution fund allocations from counties as a penalty for failure to implement soil type and soil classification data.

In 2015, the Legislative Assembly provided property tax reform or relief through the passage of House Bill Nos. 1057 and 1059 and Senate Bill Nos. 2005, 2031, 2144, 2206, and 2217. House Bill No. 1057 relocated the statutory provision mandating that property owners receive notice of certain assessment increases and notice and opportunity for taxpayers to appear if a board is considering increasing an assessment by an amount prescribed in statute. Senate Bill No. 2005 extended the 12 percent state-paid property tax credit through tax year 2016 and appropriated $250 million for allocations of state-paid property tax relief credit funds for the biennium. House Bill No. 1059 extended the 12 percent state-paid property tax credit indefinitely, provided an equivalent credit for rural electric cooperatives, modified the transmission line per mile tax rate, and allowed certain transmission line tax payments to qualify for the state-paid property tax relief credit. Senate Bill No. 2031 provided funding for a portion of elementary and secondary education, including a 3 percent increase in the state's per-student payment in each year of the biennium and continued state funding of up to 115 mills of local property tax. Senate Bill No. 2144 combined various levies for counties, cities, townships, and other political subdivisions and repealed unnecessary or consolidated levy provisions. Senate Bill No. 2206 provided for state assumption of a significant share of county social service costs beginning in 2016 and required the 2016 county social service board budget to be reduced by the amount of costs to be assumed by the state, with an allowable increase for county employee salary and benefits. Senate Bill No. 2217 required any taxing entity authorized to levy property taxes, or have property taxes levied on its behalf, to file a financial report with the city or county auditor in the year for which the levy will apply showing the ending balances of each fund or account held by the taxing entity during the preceding calendar year.

In 2017, the Legislative Assembly provided property tax reform or relief through the passage of House Bill No. 1015 and Senate Bill Nos. 2206 and 2288. House Bill No. 1015 required each county auditor to submit a report to the Tax Commissioner containing each taxing district's property valuation, property tax levy, and any other requested information and required the Tax Commissioner to use the information to prepare a statewide report of property tax increase. Senate Bill No. 2206 created a 2-year pilot program for the state-payment of county-funded economic assistance and social service costs, suspended a county's ability to levy up to 20 mills for human service purposes for taxable years 2017 and 2018, required the savings to be reflected on property tax statements, created a credit to provide comparable savings to centrally assessed companies that make payments in lieu of taxes, and repealed the 12 percent state-paid property tax credit effective for taxable years beginning after 2016. Senate Bill No. 2288 made various changes to property tax levy increase notice and public hearing provisions and assessment dates.

In 2019, the Legislative Assembly provided property tax reform or relief through the passage of House Bill Nos. 1041 and 1174 and Senate Bill Nos. 2124 and 2265. House Bill No. 1041 provided for an adjustment to the total amount of special assessment credits allowed against a property that qualified for the homestead tax credit. House Bill No. 1174 provided for the full amount of an individual's Social Security benefits to remain part of income for purposes of calculating income for the homestead tax credit even if the benefits are excluded for purposes of calculating income tax liability. Senate Bill No. 2124 provided the manner in which legislative property tax relief associated with the state takeover of social service costs must be calculated and displayed on property tax statements. Senate Bill No. 2265 phased school districts levying less than 60 mills to a uniform 60-mill deduction by 2025 for purposes of calculating state aid payments.

In 2021, the Legislative Assembly provided property tax reform or relief through the passage of Senate Bill No. 2213. The bill increased the value to which the property tax credit for disabled veterans may be applied from the first $6,750 of taxable valuation to the first $8,100 of taxable valuation.

In 2023, the Legislative Assembly provided property tax reform or relief through the passage of House Bill Nos. 1158 and 1245 and Senate Bill No. 2006. House Bill No. 1158 created a state-paid primary residence credit of $500 against the property tax due on each primary residence for tax years 2024 and 2025, not to exceed the property tax due on the primary residence. The bill also expanded the homestead tax credit program, which is available to North Dakota residents who meet certain income limits and are at least age 65. The bill adjusted the income limits and maximum taxable valuation reduction amounts for qualifying individuals and removed the requirement that an individual's assets may not exceed $500,000 to qualify for the credit. The following table provides the adjustments made to the brackets:

Homestead Tax Credit Brackets Following Enactment of House Bill No. 1158			
Income	**Maximum Reduction in Taxable Valuation**	**Equivalent Maximum Reduction in True and Full Valuation**	**Maximum Percentage Reduction in Valuation**
$40,000 or less	$9,000	$200,000	100%
$40,001 to $70,000	$4,500	$100,000	50%

House Bill No. 1245 required taxing districts to express property tax levies in dollars rather than mills when communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the previous taxable year. Senate Bill No. 2006 required assessors to include on the assessment increase notice to property owners a statement to inform the taxpayer that an assessment increase may result in a property tax increase on the parcel and allows the assessment increase notice to contain an estimate of property tax increase attributable to the assessment increase.

TESTIMONY AND COMMITTEE CONSIDERATIONS

Analysis of Tax Relief Provided in House Bill No. 1158

Individual Income Tax Rate Changes

The committee received a fiscal analysis from the Tax Commissioner regarding the tax relief provided in House Bill No. 1158 (2023). The committee was informed the fiscal note for the bill was approximately $515 million, of which approximately $358.3 million was attributable to the consolidation and reduction of the individual income tax brackets. The average savings per return attributable to the consolidation and reduction of the individual income tax brackets was estimated at $391. The committee also was informed 558,394 of the 916,116 individual income tax returns filed in the last biennium were in the first bracket before the enactment of House Bill No. 1158, which now is subject to a 0 percent tax rate.

The committee received testimony from representatives of the Tax Department regarding the estimated impact of the income tax bracket changes following the enactment of House Bill No. 1158 on passthrough income. The committee reviewed 2021 income tax return data, including the portion of North Dakota taxable income attributable to passthrough entity income, sole proprietor income, and royalty income broken down by resident and nonresident returns. Analysis of the data related to passthrough entity and royalty income indicated of the approximately $22.7 billion dollars of taxable income for North Dakota residents, approximately $4.65 billion is attributable to passthrough entity income. Approximately $3.52 billion of the $4.65 billion in resident North Dakota taxable income attributable to passthrough entities was taxed in the highest income tax bracket, and $1.02 billion of the $1.34 billion in nonresident North Dakota sourced income attributable to passthrough entities was taxed in the highest income tax bracket. A higher proportion of North Dakota resident royalty income was taxed at lower bracket levels, and a higher proportion of nonresident royalty income was taxed at higher bracket levels.

The committee reviewed 2022 income tax return data, including the portions of North Dakota taxable income attributable to passthrough entity income, sole proprietor income, interest, dividends, and capital gains, and royalty income broken down by resident and nonresident returns. The committee was informed the new data set included information regarding the estimated 2023-25 net tax liability, which was used for purposes of developing the fiscal note for House Bill No. 1158, and the percentage of taxpayer savings attributable to House Bill No. 1158.

The committee received additional information regarding royalty income, including analysis of royalty income reported on 1099-MISC forms from tax years 2020 through 2022. The data included the proportion of income tax attributable to royalty income, broken down by resident and nonresident returns, excluding passthrough entity royalty income. The committee was informed that in tax year 2022, there was about a 60/40 split between nonresident and resident tax on royalty income. The royalty percentage of total net tax liability ranged from 5 to 13 percent in taxable years 2020 through 2022; however, the committee was informed about 10 percent of income tax collections typically are attributable to royalty income.

The committee was informed that while the Tax Department had received a portion of 2023 income tax return data, the complete data set would not be available until closer to the 2025 legislative session. Representatives from the Tax Department indicated available return data is missing a significant portion of returns from taxpayers with K-1 income and larger taxpayers who often request filing extensions, so analysis using available data would not provide an accurate representation of the actual impact of the policy changes in House Bill No. 1158. The committee was provided information related to the status of income tax collections, including a review of incoming cash attributable to individual income tax in April and May of 2023, as compared to April and May of 2024, to provide the level of incoming cash from year to year and illustrate the progress of incoming cash until the Tax Department receives the outstanding income tax return data. The committee was informed that after the Tax Department receives the remaining 2023 tax return data, the Tax Department will be able to analyze the data and evaluate the actual fiscal impact of the income tax related policy changes in House Bill No. 1158.

Homestead Tax Credit Expansion

The committee received a fiscal analysis from the Tax Commissioner regarding tax relief provided in House Bill No. 1158, including the homestead tax credit expansion. The committee was informed the fiscal note for the bill was approximately $515 million, of which approximately $53.5 million was attributable to the homestead tax credit expansion.

The committee received testimony from representatives of the Tax Department regarding the expansion of the homestead tax credit following the enactment of House Bill No. 1158. Testimony indicated the number of households eligible for the homestead tax credit increased from 7,676 applicants in 2022 to 14,627 applicants in 2023 following the adjustments to the homestead tax credit in House Bill No. 1158. The committee also received information regarding the number of applications received by each county and total reimbursement due to each county for homestead tax credits. In 2022, the total payment due to the counties for reimbursement of homestead tax credits was $6,892,177. In 2023, the total payment due to the counties for reimbursement of homestead tax credits was $19,455,067, resulting in a year-over-year increase in the distribution amount of $12,562,890. The committee received analysis from a representative of the Tax Department regarding the long-term revenue impacts of the homestead tax credit.

The committee received information from a representative of the Tax Department regarding the procedure to apply adjustments to property tax credits, such as homestead tax credit expansion in House Bill No. 1158, which was effective beginning with the 2023 taxable year, to mobile homes in the first year the adjustments become effective. Because mobile home taxes are paid in advance and are payable in early January, the Tax Department advised counties to allow qualifying mobile home owners who paid their 2023 mobile home taxes to retroactively apply for the homestead tax credit for the 2023 tax year, and then complete the abatement process to receive the benefit of the credit.

Committee members expressed concerns regarding the difference in deadlines for remitting mobile home taxes versus real estate taxes and the difficulty for mobile home owners to access certain property tax credits. Committee members expressed similar concerns regarding the primary residence credit.

Primary Residence Tax Credit

The committee received a fiscal analysis from the Tax Commissioner regarding the tax relief provided in House Bill No. 1158. The committee was informed the fiscal note for the bill was approximately $515 million, of which approximately $103.2 million was attributable to the primary residence credit.

The committee received testimony from the Tax Commissioner regarding participation in the primary residence credit program. The testimony indicated 134,933 primary residence credit applications were received in 2024. Based on a comparison of the number of applications received and the estimation of eligible homes, the Tax Department estimated the participation rate for the program in tax year 2024 was 92.31 percent. The committee also received 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.

The committee received information from the Tax Department regarding the estimated fiscal impact of the primary residence credit for tax year 2025. The Tax Department estimated 147,057 homes were eligible for the primary residence credit in 2024, even though only 134,933 primary residence credit applications were received. For purposes of estimating the fiscal impact of the primary residence credit in tax year 2025, the Tax Department intends to use the number of homes eligible for the credit rather than the number of applications received in 2024. Using those estimates, and assuming the primary residence credit remains at $500, the estimated fiscal impact for the primary residence credit program for 2025 is $73,528,500.

Primary Residence Tax Credit Implementation

The committee received numerous updates regarding the implementation status of the primary residence credit throughout the interim, including updates from representatives of the Tax Department and representatives of the North Dakota Association of Counties, and a county representative.

The committee received updates from the Tax Commissioner and representatives of the Tax Department regarding implementation of the primary residence credit. The committee was informed the implementation of the primary residence credit was broken into multiple phases, including developing and executing information technology updates, marketing and promoting the credit, and developing various administrative procedures for administration of the credit. The Tax Department's priorities when developing the application process were to design an easy, quick, and user-friendly online application and to ensure the procedures for implementing the credit were workable for the Tax Department and the counties. The Tax Department created a custom online application for the primary residence credit, which is available on the Tax Department website. On average, it took taxpayers less than 5 minutes to complete the application. The Tax Department also created a file sharing process between the state and counties, and custom reports and tracking mechanisms for primary residence credit statistics.

The Tax Department's marketing for the primary residence credit included fliers; television, radio, website, and newspaper advertising; social media campaigns; and direct mailing of postcards to known individuals who did not apply for the credit. The committee received numerous updates throughout the interim regarding the number of applications and taxpayer calls received by the Tax Department. Throughout the course of the first application cycle, the Tax Department logged over 24,000 telephone calls in 3 months related to the primary residence tax credit. The committee also was informed the Tax Department received a 99 percent approval rating for services provided related to the primary residence credit.

The committee received testimony from a representative of the North Dakota Association of Counties regarding preparations to implement the primary residence credit at the county level. The testimony indicated the counties participated in marketing planning efforts, including a plan to include information from the Tax Department related to the primary residence credit in the 2023 property tax statement mailing. The testimony also indicated the counties appreciated the Legislative Assembly's decision to require the Tax Department and counties to share the workload of administering the credit to lessen the burden on the counties. Implementation of the credit will provide the Legislative Assembly data related to primary residences, which historically has been unavailable.

The committee received information from a county representative regarding the implementation of the primary residence credit after the application period closed. The committee was informed the Tax Department sent a data file to the counties which contained information regarding primary residence applications approved by the Tax Commissioner in each county. The county representative uploaded the files into the tax software system, identified duplicate parcels, reviewed parcels to identify ineligible parcels, finalized maximum mill levy calculations for all taxing districts in the county, and generated and mailed the estimated tax statements. After the estimated tax statements were received by county taxpayers, the county representatives were engaged with taxpayers to answer questions regarding the primary residence credit. The county representative intends to work collaboratively with the Tax Commissioner to effectively communicate the primary residence credit and other legislative tax relief on the final property tax statements.

The committee was informed despite some minor issues and learning opportunities, the primary residence implementation process was relatively smooth for the first year of the program. Additional steps remain to complete the first full cycle of the primary residence credit program, including stages of the state reimbursement process. However, because much of the programming for the state reimbursement process exists from the homestead tax credit and disabled veterans' credit, the county anticipates little difficulty in disbursing the state reimbursement funds.

The committee received information regarding potential adjustments to the primary residence credit for future taxable years, particularly if the program is continued beyond taxable years 2024 and 2025. The committee received testimony from a county representative regarding the application of primary residence credits against mobile home taxes. The committee was informed the primary residence credit was applied differently to real estate owners than to mobile home owners. Real estate owners will see the primary residence credit on their tax statement for tax year 2024. Mobile home owners did not see the primary residence credit on their tax statement for tax year 2024, because mobile home owners pay their 2024 mobile home taxes in advance, before the primary residence credits are applied. As a result, mobile home owners are required to use the abatement process to access the credit. A county can administratively file an abatement application for a property, but the county will have to act on every abatement application. This process includes several mailings and a public hearing, and may take between 20 and 145 days to complete.

The committee received testimony from representatives of the Tax Department regarding application of the primary residence credit to mobile home taxes. The committee was informed that because the primary residence credit is effective for the first 2 taxable years beginning after December 31, 2023, the credit applies to all primary residences for tax years 2024 and 2025, regardless of whether the primary residence is a mobile home or real estate. 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. However, adjusting the mobile home tax payment due date to align with the real estate tax due date would delay the revenues historically received by taxing districts for mobile home taxes by approximately 1 year.

The committee reviewed a bill draft to increase the primary residence credit amount from $500 to $1,000 and provide a proposed remedy to the issue related to application of the primary residence credit to mobile home taxpayers. The bill draft included an approach to resolve the concerns regarding application of the primary residence credit against mobile home taxes by providing a separate application and review period for mobile home primary residence credit applicants. This approach would allow a mobile home primary residence credit applicant to apply for the credit with sufficient time before mobile home taxes are levied. This application date also would provide sufficient time to allow the county auditor to apply the primary residence credit against the mobile home taxes owed on the mobile home tax statement rather than requiring a mobile home owner to use the abatement process to gain access to the tax relief.

The committee discussed the importance of implementing a solution to the mobile home tax issue, particularly if the Legislative Assembly decides to continue the primary residence credit beyond tax year 2025. Committee members acknowledged the proposed bill draft would provide one way to approach a solution to the mobile home tax issue. However, committee members were informed continued discussions are taking place which may result in a revision to the bill draft to address administrative concerns. As such, the committee members ultimately expressed a desire to defer to a private sponsor to introduce legislation to provide a solution to the mobile home tax issue. Committee members also expressed a desire to see the proposal split into two separate bill drafts before introduction, one to address raising the amount of the primary residence credit and another to address the timing issues related to mobile homes.

The committee received testimony from the Tax Commissioner regarding suggested improvements to the primary residence credit to implement in the 2nd year of the program. The committee was informed 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. The committee expressed interest in removing the application requirement in future years; however, the committee was informed removing the annual application requirement may pose challenges, including the ability to accurately track ownership changes.

Committee members commended the Tax Department and county representatives for their hard work to successfully implement the primary residence credit in a relatively short time frame. Committee members acknowledged the large amount of time, planning, and resources necessary for a smooth implementation of the primary residence credit program. Committee members also mentioned the credit appears to be well received by the public and provides targeted property tax relief to primary residences.

Income and Property Tax Relief

The committee received testimony from a representative of the Tax Foundation regarding the economics of income tax and property tax reform. The testimony provided a comparison of the economic efficiency of income tax compared to the economic efficiency of property tax. The testimony indicated property taxes are more efficient as compared to other taxes. The committee reviewed potential property tax reform recommendations, such as adopting a property tax levy limit imposed at the county level which would account for new property growth and would allow a taxing district to "bank" unused levy authority. The committee was encouraged to focus on individual income tax relief, including rate reductions or outright elimination of income tax.

The committee reviewed information regarding the state budget. The committee was informed 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; however, 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 during the 2023 legislative session through February 2024 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. Funding for the primary residence credit program and tuition freeze program are reflected as ongoing spending.

Income Tax

The committee received testimony from the Tax Commissioner regarding historical individual and corporate income tax relief provided by the Legislative Assembly from 1919 to present. The committee reviewed the lowest and highest corporate and individual income tax rates, number of corporate and individual income tax bracket levels, and highest and lowest corporate and individual income bracket levels. The committee also reviewed the estimated and actual fiscal impact of individual and corporate income tax rate reductions from the 2009-11 biennium to present and the individual income tax credit for North Dakota residents which was available during the 2021-23 biennium.

The committee reviewed information from a representative of the Tax Department regarding individual income tax returns and income tax deductions and credits. The committee received a brief description of each credit or deduction, the dollar amount claimed and number of claimants over a period of years for each credit and deduction, and noticeable trends reflecting usage of the credit or deduction. The committee was informed 573,564 of the 916,116 individual income tax returns filed in the 2022 tax year had no net tax liability. The individual income tax bracket adjustments made in House Bill No. 1158 likely will result in a decrease in the amount of credits and deductions claimed in future tax years.

Committee members expressed concern regarding continuation of income tax credits or deductions if the sole purpose of continuing the credits or deductions is to encourage certain behavior. Committee members recognized it might take several years before the full impacts of the individual income tax bracket adjustments provided in House Bill No. 1158 are reflected in the data.

The committee received testimony from a representative of the Tax Department regarding the estimated fiscal impact of options to implement a flat individual income tax rate and options to modify the individual income tax structure. The committee received fiscal analyses of three individual income tax bracket adjustment options based on 2022 tax year data. The first scenario provided for a doubling of the amount of income exempted in the bottom tax bracket for all filing types and application of a 2.25 percent flat tax to all income over the exempt amount. The Tax Department representative estimated the fiscal impact of the first scenario as approximately $212 million, and indicated approximately 84 percent of individual income tax returns would have no net tax liability. The second scenario provided for an increase of the amount of income exempted in the bottom tax bracket by 25 percent for all filing types and application of a 1.95 percent flat tax to all income over the exempt amount. The Tax Department representative estimated the fiscal impact of the second scenario as approximately $146 million, and indicated approximately 69 percent of individual income tax returns would have no net tax liability. The third scenario provided for a reduction of the rates in each tax bracket by approximately 25 percent and application of a 0 percent rate in the first tax bracket, 1.5 percent rate in the second tax bracket, and 1.9 percent rate in the third tax bracket. The Tax Department representative estimated the fiscal impact of the third scenario as approximately $155 million, and indicated approximately 61 percent of individual income tax returns would have no net tax liability.

The committee reviewed 2022 income tax data related to taxable investment income, including taxable interest, dividends, and capital gains. The committee was informed of the 345,585 total resident returns, 144,203 resident returns included investment income. The estimated total investment income for residents was $2,758,184,122. The committee also received information regarding the potential impact of scenarios to tax investment income, including scenarios in which a 5 percent tax would be applied to the estimated total investment income for residents. The scenarios included various thresholds at which the tax would be applied, including a $10,000 per return threshold and a $50,000 per return threshold. For example, if a 5 percent tax rate were applied to the estimated total investment income above $10,000 per return for residents, the estimated net tax liability would be approximately $131,797,753.

The committee also received data comparing the progressivity of taxing investment income within the current income tax system as compared to a separate investment income tax. The analysis indicated removing investment income from the traditional income tax system and imposing a separate tax specifically on investment income would result in a more progressive taxing system. Additionally, imposing thresholds on a separate tax on investment income, such as taxing investment income over $10,000 per return, would increase the progressiveness of the tax.

The committee received testimony from a representative of the Tax Department regarding a method of taxing passthrough entities which is used in numerous other states and relates to the federal state and local tax (SALT) itemized deduction. The 2017 Tax Cuts and Jobs Act (TCJA) temporarily capped the SALT itemized deduction for state and local taxes at $10,000 for individual taxpayers only. To provide passthrough entities the opportunity to work around this cap, about 39 states have implemented, or are in the process of implementing, a type of legislation known as SALT cap workaround legislation, which allows a state to levy a tax on the passthrough entity and provide a corresponding tax credit on the owner's personal income tax return. This type of legislation provides the passthrough entity the benefit of shifting the deduction to the entity to circumvent the federal SALT itemized deduction limit. The committee was informed some states that have implemented SALT cap workaround legislation provide a dollar-for-dollar credit, and other states provide a reduced credit. The TCJA will sunset after 2025, so without legislation providing differently, most TCJA provisions, including the SALT itemized deduction cap, will revert to the provisions effective in 2017.

The committee received testimony from a representative of the Tax Department regarding the state marriage penalty credit and fiscal impact of removing the state marriage penalty. The testimony indicated the state marriage penalty credit provides marriage penalty relief to lower income taxpayers and approximately $8 million in marriage penalty credits were claimed in the current biennium. The testimony also indicated taxpayers in the lower income tax brackets would receive a greater benefit if the married filing jointly income tax brackets were 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. 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 based on 2022 tax year data.

The committee reviewed a bill draft to remove the marriage penalty and repeal the marriage penalty credit. The bill draft would have adjusted the income ranges for the married filing jointly tax bracket to be double the income ranges for the single filer tax bracket, adjusted the income ranges for the married filing separately tax bracket to be half of the income ranges for the new married filing jointly tax bracket, and adjusted the income ranges for the head of household tax bracket to be halfway between the income ranges for the new single filer and married filing jointly tax brackets. Committee members discussed advantages of the removal of the marriage penalty, but ultimately concluded it is prudent to wait for additional information regarding other potential tax relief proposals and the initiated proposal to eliminate ad valorem property tax before recommending a bill draft to repeal the marriage penalty credit.

Property Tax

The committee received testimony from the Tax Commissioner regarding historical property tax relief provided by the Legislative Assembly. The committee was informed the homestead tax credit has been in place since 1969, and the income requirements for the credit have been amended by 31 bills. The committee reviewed historical information regarding usage of the homestead tax credit, renter's refund, and disabled veterans' credit, including data related to the amount of claimants and the amount claimed for each incentive since enactment. The committee was informed the variation in usage of the homestead tax credit, disabled veterans' credit, and renter's refund over time is attributable to changes in qualification criteria rather than issues or concerns with the application process for the incentives. Approximately one out of five eligible renters apply for the renter's refund and four out of five eligible homestead owners apply for the homestead tax exemption. Education and outreach are important components of increasing participation in the homestead tax credit, disabled veterans' credit, and renter's refund programs.

The committee received testimony from representatives of the Tax Department related to the homestead tax credit, disabled veterans' credit, and renter's refund programs. For each program, the committee received an overview of the qualification criteria and application process, an analysis of potential ways to simplify the application process, and information regarding the demographics of applicants. The committee was informed the Tax Department is receptive to feedback from taxpayers and county officials regarding the application process for each of the programs. For example, in response to feedback from taxpayers and county officials, the deadline for the homestead tax credit was extended from February 1, 2024, to March 31, 2024, and portions of the application related to the income requirements were updated for clarity.

The committee received clarification regarding the application of the homestead tax credit, disabled veterans' credit, and the primary residence credit. The committee was informed the homestead tax credit and disabled veterans' credit reduce a property's taxable value and would therefore be applied before the primary residence credit. The primary residence credit is applied to the consolidated tax, so the credit would be applied to any remaining balance after the application of other property tax credits.

The committee received an analysis from the Tax Department regarding the long-term revenue impacts of the homestead tax credit. The committee was informed the number of households eligible for the homestead tax credit increased from approximately 10,000 to 21,000 households following the adjustments to the homestead tax credit in House Bill No. 1158. Based on available data, the estimated biennium totals for the homestead tax credit and renter's refund are $77.1 million for the 2025-27 biennium and $81.2 million for the 2027-29 biennium.

The committee received an analysis from the Tax Commissioner regarding the estimated fiscal impact of approaches to expand the eligibility criteria for the homestead tax credit. The committee reviewed a number of potential combinations to expand the eligibility criteria for the homestead tax credit, including raising the income thresholds and adjusting the taxable value percent and dollar deduction of the credit. The committee also was provided with fiscal analysis of potential modifications to the qualification criteria.

The committee received an analysis from a representative of the Tax Department of the estimated fiscal impact of increasing the primary residence credit. The committee was provided with the estimated fiscal impact to increase the primary residence credit amount by $50 increments, up to a maximum credit of $1,000, as follows:

Credit Amount	Number of Households	Annual Amount	Biennium Amount
$500	165,000	$82,500,000	$165,000,000
$550	165,000	$90,750,000	$181,500,000
$600	165,000	$99,000,000	$198,000,000
$650	165,000	$107,250,000	$214,500,000
$700	165,000	$115,500,000	$231,000,000
$750	165,000	$123,750,000	$247,500,000
$800	165,000	$132,000,000	$264,000,000
$850	165,000	$140,250,000	$280,500,000
$900	165,000	$148,500,000	$297,000,000
$950	165,000	$156,750,000	$313,500,000
$1,000	165,000	$165,000,000	$330,000,000

The committee also received a breakdown of approved primary residence applications by age of the applicants from a representative of the Tax Department. The committee was informed of the 134,893 total primary residence credit applicants, 1,253 applicants were under age 25, 12,526 applicants were between ages 25 and 34, 27,032 applicants were between ages 35 and 44, 22,284 applicants were between ages 45 and 54, 27,799 applicants were between ages 55 and 64, and 43,999 applicants were age 65 and older.

A representative of the North Dakota Association of Counties provided information regarding the calculation of property tax. The committee received an overview of the valuation process for locally and centrally assessed property. The committee was informed of the budget preparation process, including the county budget cycle timeline, political subdivision budget worksheets, calculation of mill rates, and maximum levy worksheets.

The committee received information from the Legislative Council regarding legislative authority to classify and exempt property under constitutional provisions. The committee reviewed the primary constitutional provisions related to the authority to classify and exempt property, including Section 5 of Article X of the Constitution of North Dakota and the constitutional guarantee of equal protection. The committee also was informed that determining whether a constitutional limitation or concern is implicated by a particular property classification or exemption is a fact-specific inquiry, which may require analysis of additional constitutional provisions or laws depending on the specific classification or exemption at issue.

The committee also received information from the Legislative Council regarding property tax exemptions. The committee was provided a list of existing property tax exemptions enacted in North Dakota since 1890 and the date each exemption was originally enacted.

The committee received a summary of the results of a statewide survey of tax-exempt parcels in each county conducted by the North Dakota Association of Counties. The committee was informed 52 of the 53 counties responded to the survey and 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.

The committee expressed a desire to review information regarding the valuation of property exempt from taxation. However, a representative of the North Dakota Association of Counties informed the committee because 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. 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.

The committee received an overview of centrally assessed property and payments in lieu of property taxes from a representative of the Tax Department. The committee received information regarding valuation of centrally assessed property, including oil pipelines, natural gas pipelines, carbon dioxide pipelines, railroads, wind farms, electric and gas companies, and air transportation companies. The committee also received information regarding calculation of electric generation, distribution, and transmission taxes, which are levied in lieu of ad valorem property taxes.

The committee received testimony from a representative of the North Dakota Association of Counties regarding the potential to impose limitations on the growth of property values, county budgets, or property taxes levied. The committee reviewed property tax data, including data related to property taxes levied by taxing district, changes in property value, the average increase of county property tax levies, and county uses of property tax revenue. 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. The committee was informed counties are opposed to limitations on the growth of property valuations. The testimony contended year-to-year impact of nonproperty 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. According to the testimony, 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. The testimony encouraged taxpayers to be informed of the services funded by the property taxes levied by each taxing district and to engage in the local budgeting process.

The committee received testimony from a representative of the North Dakota League of Cities regarding the potential to impose limitations on the growth of property values, city budgets, or property taxes levied. According to the testimony, it will be difficult to identify a limitation related to the growth of property taxes which works well for each of the 355 unique cities with differing populations, economic climates, and needs. 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. The committee also reviewed a survey that included information regarding taxable valuation and tax levies in cities for tax year 2023.

The committee received testimony from a representative of the North Dakota School Boards Association regarding the potential to impose limitations on the growth of property values, school district budgets, or property taxes levied. School districts 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. According to the testimony, this obligation would make reducing services difficult, particularly if a limitation is imposed on a school district budget or property tax levy.

The committee also was informed the largest general fund expenditure for schools is labor costs, including salaries and benefits for school staff. On average, more than 79 percent of general fund expenditures are used for this purpose. According to the testimony, school employees are entitled to employment contracts under state law and have the right to negotiate terms and conditions of employment, which limits a school district's ability to make timely adjustments in staff, compensation, and benefits. Because school districts often use increases in school salaries to address issues like teacher shortages and retention, a limitation on the growth of property taxes could cause difficulty in attracting and retaining teachers. The committee also was informed the North Dakota School Boards Association supports the local share in the K-12 education funding formula because it increases the likelihood of local engagement in school issues.

The committee received testimony from a representative of the North Dakota Township Officers Association regarding the potential to impose limitations on the growth of property values, township budgets, or property taxes levied. The committee reviewed background information regarding the township budget and property tax levy procedure. The testimony indicated all township levies require a vote of electors at a meeting for which notice has been published at least 10 days before the meeting. Township electors have a greater ability to influence property taxes than any other taxing district because the electors are able to amend the budget that has been proposed for a vote. The testimony contended because the procedures provided in statutes allow township electors to control the growth of property taxes, an additional limitation for townships may not be necessary.

The committee received testimony from interested persons related to the committee's study of property tax relief. The testimony encouraged the committee to reform rather than abolish property tax and to review the property tax exemptions provided under law to determine whether the state should continue to provide the exemptions. The committee also was encouraged 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.

Committee Discussion Regarding Property and Income Tax Relief

Committee members expressed mixed opinions regarding how best to approach tax relief in the upcoming legislative session. Some committee members supported income tax relief as an important tool to positively impact the state's economy and attract individuals to move to the state, particularly a younger population of individuals who more recently entered the workforce. Other committee members acknowledged the importance of providing property tax relief, particularly in light of the volume of constituent concerns and the initiated measure seeking to prohibit ad valorem property taxation.

Committee members discussed various potential forms of income tax relief, including adjustments to the individual income tax brackets, implementing a path to full elimination of individual income tax, and removing the marriage penalty. Committee members expressed mixed feelings regarding the necessity of additional income tax relief beyond what was provided in House Bill No. 1158. Some committee members advocated for additional individual income tax relief while other committee members advocated for more of a focus on property tax relief in the upcoming session. Committee members discussed a desire to explore potential approaches to taxing certain unearned or passthrough income, such as income reported on K-1 forms, royalty income reported on 1099-MISC forms, or interest, dividends, and capital gains, differently than other individual taxable income if additional individual income tax relief is provided to taxpayers. The committee discussed potential benefits to implementing this type of alternative tax structure, including ensuring out-of-state mineral owners contribute to state and local costs associated with mineral extraction and providing more targeted income tax relief to specific types of individual income.

The committee discussed various approaches to property tax relief including, increasing the amount of the primary residence credit, providing targeted property tax relief for primary residences, examining the taxable valuation calculation for residential property, and reviewing the property tax exemptions available under law. Some committee members expressed a desire to continue the primary residence program beyond tax year 2025 and increase the amount of the credit. Committee members mentioned the credit has been successfully implemented, appears to be well received by the public, and provides targeted property tax relief to primary residences. Other committee members encouraged the committee to examine the approaches taken by other states and exercise caution as appropriate, particularly related to providing one property classification significantly more tax relief than other property classifications.

Committee members also discussed the importance of considering property tax reform in addition to property tax relief to slow the growth of property tax levies. Committee members discussed that further increases in state spending to reduce property taxes should be coupled with property tax reform to ensure taxpayers will feel the impact of the property tax relief. Some committee members expressed a desire to explore potential limitations on the growth of property values, taxing district budgets, or property taxes levied by a taxing district. Committee members raised concerns regarding the potential unintended consequences of imposing the limitations, including those unique to certain taxing districts. Committee members noted that while it is important to explore property tax reform options, it also is prudent to implement change incrementally to avoid unintended consequences that may be associated with a more dramatic change. The committee indicated a desire to continue discussions with representatives of local taxing districts to find efficiencies in local spending and lower property tax levies for taxpayers.

Committee members noted the committee's directive was not necessarily to put forth a particular property tax relief plan to compete against other property tax relief legislative proposals or the initiated measure seeking to prohibit ad valorem property taxes, but rather was to gather and analyze information, learn about potential options for tax relief, including advantages and disadvantages of the options, and hear from tax experts on issues related to income and property tax relief. Committee members noted the information gathered by the committee will be available to all legislators and may help inspire ideas for privately sponsored legislation or prepare legislators to analyze proposals that may be introduced during the legislative session. Committee members noted the appropriate form or level of property tax relief will depend on available state funding and the outcome of the initiated measure proposed to prohibit the levy of ad valorem property taxes, the vote for which will take place after the adjournment of the committee.

CONCLUSION

The committee makes no recommendation regarding its study of income and property tax relief.