

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

10440

2005 HOUSE FINANCE AND TAXATION

HB 1040

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1040**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **January 11, 2005**

Tape Number	Side A	Side B	Meter #
1	x		0.4

Committee Clerk Signature

*Janice Stein*

Minutes:

**REP. WES BELTER, CHAIRMAN** Called the committee hearing to order.

**JOHN WALSTAD, ATTORNEY WITH THE LEGISLATIVE COUNCIL**, Explained the bill. Mr. Walstad served as council for the interium committee, and that is where the bill originated. Mr. Walstad submitted a written explanation and recommendations from the interium committee. See attached copy.

With no further questions, the hearing was closed.

**COMMITTEE ACTION. Tape #1, Side A, Meter 3.0**

**REP. DROVDAL** Stated he was part of the interium committee and Mr. Walstad did an excellent job in his explanation. He felt all the other states are using this tool, so he felt North Dakota should also.

**REP. DROVDAL** Made a motion for a **Do Pass**.

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House Finance and Taxation Committee  
Bill/Resolution Number **HB 1040**  
Hearing Date **January 11, 2005**

**REP. OWENS** Second the motion. **Motion Carried.**

11      Yes      3 No      0 Absent

**The floor assignment was given to Rep. Headland.**

**FISCAL NOTE**  
**Requested by Legislative Council**  
12/17/2004

Bill/Resolution No.: HB 1040

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$75,000		\$375,000	
Expenditures						
Appropriations						

**1B. County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

**2. Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1040 requires taxpayers to include in taxable income the interest and dividends received from municipal bonds issued from states and cities outside North Dakota.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1040 is expected to increase individual income tax revenue by \$75,000 in FY 07, and by \$375,000 in the 2007-09 biennium. The grandfathering provision means the add-back will not be fully phased in for ten years or more.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name: Kathryn L. Strombeck  
Phone Number: 328-3402

Agency: Office of Tax Commissioner  
Date Prepared: 01/10/2005

Date: 1-11-05  
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1040

House FINANCE & TAXATION

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Do Pass

Motion Made By

Rep. Drovda

Seconded By

Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI	✓				
FROELICH, ROD	✓				
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	✓	✓			
KELSH, SCOT	✓				
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO	✓				
WEILER, DAVE		✓			
WRANGHAM, DWIGHT		✓			

Total (Yes)

11

No

3

Absent

0

Floor Assignment

Rep. Headland

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
January 11, 2005 11:45 a.m.

**Module No: HR-06-0263**  
**Carrier: Headland**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1040: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO PASS (11 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1040 was placed on the Eleventh order on the calendar.**

2005 TESTIMONY

HB 1040



HB 1040  
John Walstad

### **Interest on Out-of-State Municipal Bonds**

Interest earnings from state and local obligations are exempt from taxation at the federal level. In North Dakota interest earnings from out-of-state bonds are added back and taxed on Form ND-2 but there is no add-back for out-of-state bonds and obligations on Form ND-1, which is the primary filing method for most North Dakotans. Most states that impose income taxes do not grant favorable tax treatment except for earnings from bonds issued within their state. It was estimated that a bill draft to require add-back of out-of-state bond earnings would increase general fund revenue by approximately \$1.5 million per biennium. The committee was concerned about the fairness of imposing taxes on income from bonds that have already been purchased with the expectation that income would not be taxed. To apply income taxes to out-of-state bond earnings for bonds purchased after 2005 would be approximately revenue neutral to the state.

### **Recommendations**

The committee recommends House Bill No. 1040 to require adding back out-of-state bonds' interest earnings to individual taxable income on Form ND-1. The bill applies only to bonds purchased after December 31, 2005. It is anticipated that the bill will have little fiscal impact to the state general fund for the 2005-07 biennium.