

**2013 HOUSE FINANCE AND TAXATION**

**HB 1182**

# 2013 HOUSE STANDING COMMITTEE MINUTES

## House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1182  
January 21, 2013  
Job #17483

☐ Conference Committee

Committee Clerk Signature

*Mary Bruckner*

### Explanation or reason for introduction of bill/resolution:

A Bill relating to suspension of the income tax for individuals, estates, and trusts.

### Minutes:

*Attached testimony #1.*

**Chairman Belter:** Opened hearing on HB 1182.

**Representative Louser:** Introduced bill. This bill suspends the personal income tax for the calendar years 2013 and 2014. This bill may prove that in the future our state does not need a personal income tax. We've seen over the last couple weeks the governor of Louisiana propose elimination of their income tax and then shortly after that the same thing happen in Nebraska. Those proposals also included corporate income tax. This bill is big, bold, and aggressive. It's big in that it encompasses an estimated billion dollars. If we would have done this years ago that estimation would have been much lower. This shows a fiscal note of over a billion dollars. We've seen estimates maybe even more than that. It's bold in that it addresses the full tax; it's not a reduction in rates. It addresses all five brackets and does so for two years. It's aggressive in that it does address the two years but it is a suspension so it's something that could be considered again in the next biennium. When I say it's big and aggressive it is also responsible. The question has been asked about what would happen to the tax department employees in that division and they should be fairly busy in 2013 if this were to pass and signed into law. Obviously there has been withholdings from personal income tax through this calendar year so far. To be very candid I did not consider this when proposing this bill so 2014 may be an issue in that department. There are provisions in this bill for carry forward credits. I would extend any credits that would be carried into this biennium forward two more years. So anyone who would be receiving income tax credits that they may want to claim this year or next year should this pass would allow for a two year carry forward. There's going to be a number of bills merged with corporate income tax and so this is something to deliberate once you've heard all the bills. Our state has a very large surplus which tells me that the state has too much money so let's cut taxes.

**Representative Drovdal:** Did you consider all income taxes, including corporate, individual, and financial institution taxes? If so, what would the fiscal note have been?

**Representative Louser:** I only considered that initially. This was a constituent driven idea that was considered to take the personal income tax rates, all five of the brackets, to 0% and leaving the law in place. This bill only considers personal income tax.

**Representative Zaiser:** In your discussions with constituents I'm wondering if you've gotten the response that this is the fairest tax because it's the most progressive. The less money you have the less you pay. The more money you have you pay a little bit more percentagewise. There was some effort to reduce this years ago but it failed. The people thought property tax was more onerous than income tax.

**Representative Louser:** I have heard more constituents address property tax. There are property tax proposals separate from this. I haven't heard the fairness issue come up but I've heard a lot of support both from constituents and the general public making comments that while this is good it may not in some cases be enough tax relief.

**Chairman Belter:** Further testimony in support of 1182?

**Sandy Clark, North Dakota Taxpayers Association:** We stand in support of HB 1182. We believe this bill offers real tax relief to citizens of North Dakota. It returns the budget surplus to those who paid it. We believe that the government should not collect more money than it needs to operate. As we look at the budget surpluses that we've had in the last biennium it is real easy to spend the money when it's here. We think that the solution is that if you don't collect it then you can't spend it. We think this is a method to that end. Individual income tax is not a large part of the state's revenue stream. We believe it could be permanently eliminated, both corporate and individual. We support a two year moratorium on the individual income tax. The bill has a large price tag but we believe that a lot of this can come back to the state in the form of sales tax. When people have more money in their pockets they are going to spend it which will generate sales tax. We think everybody wins. If you look in the red book that you get from the state tax department you will find that in 2002 income tax generated \$200 million and individual income tax generated \$200 million and today it is estimated to generate \$453 million. This is a big increase and there has been an increase in goods of services as well but a lot of that has come from a very strong economy in North Dakota whether it's the oil industry that generates additional income and the agriculture community that has had good commodity prices and all those things have generated additional sales and income to the stream of citizens in North Dakota. We hope that you would give serious consideration to HB 1182.

**Representative Froseth:** Eliminating income tax would also give all the people who own property and make income from North Dakota who lives out of state would give them no obligation to pay any taxes. I'm thinking especially those that own minerals and get big royalty checks who live in another state. Also, there's a lot of land that is cash rented to out of state property owners and those people would get a free ride on paying any tax on supporting the needs of the state. What is your opinion on that?

**Sandy Clark, North Dakota Taxpayers Association:** That is true and is always a dilemma when you have these kinds of issues and bills but I think you find a lot of those people are still family members. I saw some information the other day that indicated a lot of the mineral owners are from North Dakota. It is an issue and I'm not going to deny that.

**Representative Drovdal:** Most of the out of state royalty owners pay the 11 ½% excise and production tax which is higher than any rate of income tax so they are paying into the state's cost of business, are they not?

**Sandy Clark, North Dakota Taxpayers Association:** Excellent point.

**Representative Zaiser:** From my perspective experts on tax generally regard sales tax as the more regressive tax. You indicated that if we eliminate the income tax and we need more money we should go to the sales tax. The people say that really punishes those that have the least amount of money. They have to buy the same things that the ones with more money have to buy.

**Sandy Clark, North Dakota Taxpayers Association:** I'm not implying an increase in sales tax. What I'm saying is that when you eliminate an income tax or reduce an income tax you leave more money in the pockets of those folks. When people have more money in their pocket they will spend it and that will generate additional sales tax revenue for the state.

**Representative Zaiser:** I'm a large supporter of education and we've relied on local money to pay education. We've gotten to the point where the state now helps us out. How much do you think that will impact these school districts?

**Sandy Clark, North Dakota Taxpayers Association:** I think maybe we're going on a whole other issue. A poor district means that it has less property valuation and that's only because they are surrounded by other districts. It simply means that they are property poor it does not mean they are cash poor or that the residents are income poor.

**Chairman Belter:** Further support of 1182?

**Andrea Toman, Bismarck:** I am in support of 1182. I believe that it would be a great benefit to the state of North Dakota to eliminate income tax because it creates incentive for personal growth. I would also believe that eliminating corporate income tax would increase economic growth. So between the two I think that they would be a great benefit to the state of North Dakota. We would then join seven states that already have no income tax; Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Among those states I see a lot of places that people like to go to retire. I would like to have the benefit of not paying income tax long before I retire and while I still reside in the state of North Dakota.

**Chairman Belter:** Further testimony in support? Any opposition to 1182?

**Bill Shalhoob, Greater North Dakota Chamber:** Refer to attached testimony #1.

**Chairman Belter:** Any further testimony in opposition to 1182?

**Vice Chairman Headland:** How many employees in the tax department are specific to income tax? What would we do with them if this bill were to become law? Would it be

possible to estimate the amount of increased revenue collected through sales tax on the fiscal note?

**Ryan Rauschenberger, Deputy Tax Commissioner:** We have 14 people that are dedicated solely to individual income tax and withholding. That varies from auditors, audit technicians, and office assistants as well. The bill to my knowledge does not get rid of the commissioner's authority to audit returns. Auditors would continue to audit past returns on possibly a three year basis so there's a lot of looking back to the 2010, 2011, and 2012 years. I could talk to Kathy Strombeck about what we could look at and do some analysis on the sales tax question you had. We would have to see if there's an uptick in the sales tax collections and back into a number.

**Vice Chairman Headland:** I think we make assumptions all the time so if that could be provided I think that would be helpful to us. In reviewing this bill, does it make it so that people are going to continue to have to file an income tax in the two year suspension?

**Ryan Rauschenberger, Deputy Tax Commissioner:** I don't believe so. I don't believe it continues some sort of information return or filing requirement.

**Representative Hatlestad:** How would I get back the money from 2013?

**Ryan Rauschenberger, Deputy Tax Commissioner:** Joseph Becker states the bill requires you to file to get the money back.

**Representative Marie Strinden:** If the people in the income tax department don't have anything to do but look back and audit, does that mean everyone is in fear of being audited?

**Ryan Rauschenberger, Deputy Tax Commissioner:** It's a good question. Not only would there be the opportunity to continue and have audits but also more emphasis on sales tax.

**Representative Marie Strinden:** That puts me somewhat at ease.

**Chairman Belter:** Any other neutral testimony on 1182? If not we will close the hearing on HB 1182.

# 2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee  
Fort Totten Room, State Capitol

HB 1182  
February 5, 2013  
Job 18339

☐ Conference Committee

*Kristen Helgert*

## Explanation or reason for introduction of bill/resolution:

Suspension of the income tax for individuals, estates, and trusts; to provide an effective date; and to provide an expiration date.

## Minutes:

**Chairman Belter:** Opens HB 1182

**Rep Owens:** Moves a Do Not Pass.

**Rep Dockter:** Second.

**Yes:** 14

**No:** 0

**Absent:** 0

**Carried by:** Rep Dockter.

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/11/2013**

Bill/Resolution No.: HB 1182

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(1,031,000,000)			
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1182 suspends the individual income tax for the 2013 and 2014 tax years.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of HB 1182 suspends the individual income tax for tax years 2013 and 2014 and reinstates the tax beginning with tax year 2015. The bill authorizes the Tax Commissioner to issue refunds of any advanced payments of tax liabilities during the suspended years.

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 1182 is expected to reduce state general fund revenues by an estimated \$1.031 billion during the 2013-15 biennium. This is the biennial forecast for individual income tax. It is possible that a portion of this impact may be realized in the 2011-13 biennium, depending on when the bill is actually signed into law, and provided employers change withholdings promptly upon passage.

- 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, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*



**Name:** Kathryn L. Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 328-3402

**Date Prepared:** 01/16/2013





Date: 2-5-13  
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1182

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep Owens Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh	✓	
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak	✓	
Rep. David Drovdal	✓		Rep. Marie Strinden	✓	
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Dockter

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

**REPORT OF STANDING COMMITTEE**

**HB 1182: Finance and Taxation Committee (Rep. Belter, Chairman)** recommends **DO NOT PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1182 was placed on the Eleventh order on the calendar.

**2013 TESTIMONY**

**HB 1182**

Testimony of Bill Shalhoob  
Greater North Dakota Chamber of Commerce  
HB 1182  
January 21, 2013

Mr. Chairman and members of the committee, My name is Bill Shalhoob and I am here today representing the Greater North Dakota Chamber of Commerce, the champions for business in North Dakota. GNDC is working to build the strongest business environment possible through its more than 1,100 business members as well as partnerships and coalitions with local chambers of commerce from across the state. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in opposition to HB 1182 and urge a do not pass from your committee on the bill.

GNDC has been among the principle advocates for tax reductions in past sessions and that role will continue in this session. In seeking those reductions our goal is that any reductions given will be measured, fairly distributed among all classes of taxpayers and above all else sustainable for the long term. In the business community and the private sector certainty allows for long term planning and promotes investment into the state economy. HB 1182 fails the test on two of our prerequisites. It is not sustainable in that it lasts for two years and then sunsets and it does not address corporate or other business income taxes. We believe there is a better and more equitable way to lower income taxes. The vehicle we are supporting is HB 1250 which has been introduced and will most likely be scheduled for a hearing in this committee sometime in the next few weeks.

Thank you for the opportunity to appear before you today in opposition to HB 1182. I would be happy to answer any questions.