

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

	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
2007-09 legislative appropriation	133.00	\$32,716,840 <sup>1</sup>	\$2,800,000	\$35,516,840
2005-07 legislative appropriation	<u>133.00</u>	<u>22,485,152</u>	<u>14,120,000</u>	<u>36,605,152</u>
2007-09 appropriation increase (decrease) to 2005-07 appropriation	0.00	\$10,231,658	(\$11,320,000)	(\$1,088,342)

<sup>1</sup>This amount includes \$5,356,702 of one-time funding. Excluding this amount, the agency's ongoing general fund appropriation is \$27,360,138.

**NOTE:** The 2007-09 legislative appropriation amounts include \$178,657 from the general fund for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

**Item Description**

**Loan repayments for integrated tax processing system - One-time funding** - The 2005 Legislative Assembly authorized the Tax Commissioner to purchase, finance the purchase, or lease equipment, software, and services to establish an integrated tax processing system for use by the Tax Commissioner's office. The principal amount of any financing agreement entered by the Tax Commissioner could not exceed \$14 million. The Tax Commissioner entered an agreement with the Bank of America to finance, over a six-year period, the purchase of the GenTech commercial "off-the-shelf" tax processing software from Fast Enterprises. The loan repayment schedule began in July 2007. The 2007 Legislative Assembly appropriated \$5,356,702 from the general fund for principal (\$4,083,705) and interest (\$1,272,997) costs for the integrated tax processing system during the 2007-09 biennium. The Legislative Assembly identified this funding as a one-time funding item. This amount is not considered part of the agency's base budget for preparing the 2009-11 executive budget, and the Tax Commissioner is to report to the Appropriations Committees during the 2009 legislative session on the use of this funding.

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

- A homeowner or renter may not have income exceeding \$17,500 (was \$14,500) per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$3,375 (was \$3,038) (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to a \$75,000 (was \$67,500) reduction in the value of the house; and
- For eligible renters making \$17,500 (was \$14,500) or less per year, the program provides a direct payment of the amount by which

**Status/Result**

The loan repayment schedule for the integrated tax processing system includes annual payments of \$2,678,561 for principal and interest. The Tax Department anticipates the last annual payment will be made in July 2012.

The Tax Department is implementing the changes to the homestead tax credit program, including creating a shared database with counties and changes to the integrated tax system to process the new tax credits.

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

<b>Number Eligible for Program</b>			
<b>Year</b>	<b>Homeowners</b>	<b>Renters</b>	<b>Total</b>
2002	4,341	1,329	5,670
2003	4,060	1,288	5,348
2004	3,923	1,335	5,258
2005	3,817	1,322	5,139
2006	3,516	1,273	4,789

20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$240.

Section 10 of Senate Bill No. 2032 provides an appropriation of \$8,104,000 from the general fund for the homestead tax program, an increase of \$3,604,000 from the 2005-07 biennium appropriation of \$4.5 million.

Year	Homeowners	Renters	Total
2007	3,677	1,305	4,962
2008	3,651	1,443 <sup>1</sup>	5,094

<sup>1</sup>The 2008 number for renters is preliminary. Renters have until May 31 to submit applications for the renters property tax refund.

Payments Made Under Program			
Year	Homeowners	Renters	Total
2002	\$1,768,001	\$173,754	\$1,941,755
2003	\$1,676,737	\$172,224	\$1,848,961
2004	\$1,659,707	\$185,807	\$1,845,514
2005	\$1,655,555	\$186,896	\$1,842,451
2006	\$2,025,060	\$182,947	\$2,208,007
2007	\$2,008,310	\$188,418	\$2,196,728
2008	\$2,342,186	\$207,032 <sup>1</sup>	\$2,549,218

<sup>1</sup>The 2008 amount for renters is preliminary. Renters have until May 31 to submit applications for the renters property tax refund.

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

- In addition to any other credit or deduction allowed by law for a homeowner, an individual income tax credit is authorized for taxable years 2007 and 2008 in the amount of 10 percent of property taxes or mobile home taxes that become due during the taxable year.
- The term "property taxes" does not include special assessments for purposes of determining the income tax credit.
- The term "homestead" means the dwelling occupied by the individual as the individual's primary residence and, if that residence is in this state, any residential or agricultural property owned by that individual in this state.
- The amount of the credit may not exceed the lesser of the taxpayer's income tax liability or \$1,000 for married persons filing a joint return or \$500 for a single individual or married individuals filing separate returns. The unused amount of the credit may be carried forward for up to five years or the taxpayer may request that the Tax Commissioner issue the taxpayer a certificate in the amount of the excess which may be used by the taxpayer against property or mobile home tax liability of the taxpayer during the ensuing taxable year.
- If on November 15, 2008, the amount of tax credits claimed exceeds \$47 million, the Tax Commissioner shall reduce the rate of the credit based on the percentage by which the credits claimed exceeds \$47 million.

At the time of this report, information was not available on the number of eligible property owners or the effect on general fund revenues from the homestead "income" tax credit.

- The Tax Commissioner is to report any adjustments to the homestead income tax credit to the Budget Section for review.
- The homestead "income" tax credit is anticipated to reduce general fund revenues by \$97 million during the 2007-09 biennium.

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

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

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

**Property tax relief implementation** - The Legislative Assembly provided the Tax Commissioner a special funds appropriation of \$1.1 million from unexpended loan funds relating to the integrated tax processing system for costs associated with implementing property tax relief provisions included in Senate Bill No. 2032.

At the time of this report, information was not available on the number of eligible commercial property owners or the effect on general fund revenues from the commercial property income tax credit.

At the time of this report, information is not available on the number of eligible taxpayers or the effect on general fund revenue from the marriage penalty credit.

The Tax Department has used the \$1.1 million special funds appropriation for expenses incurred to implement Senate Bill No. 2032, including computer program changes, postage, travel for seminars to train county employees and tax practitioners, and for salaries for temporary staff due to the additional workload.