

# It's Time to Constitutionally Abolish Property Taxes in North Dakota.

## An Idea Whose Time is Now!

Democracy is not a spectator sport. If we fail participate our country will cease to be a democracy. We either participate or must be prepared to accept what those who do participate impose on us.

Today our governmental institutions have done more to strip away our liberty and freedom than all other threats to our freedom combined. It has done so by invading our privacy, increasing regulatory control over our life at a rate historically unprecedented and taxing us to fund activities that far exceed the legitimate needs and responsibilities of government.

### EVERY CITIZEN'S RESPONSIBILITY

Changing this requires more than electing different people, although that is critical. It requires:

1. **Every citizen to actively participate in our political system.** This means each citizen must take responsibility to not simply vote but to become informed about what his/her government is doing and hold their elected officials accountable for what they do and do not do.
2. **Reducing the amount of money government takes from us.** Government has become too big. Today, the amount of money governmental entities take from the earnings of citizens far exceeds the legitimate needs of government. Citizens/taxpayers must take control of the taxing mechanisms used by government to extract our earnings. We must limit what is taken to only the amounts necessary to meet the necessary and legitimate functions of government. Government should be prohibited from taxing citizens to fund special interest wants and desires, including giving tax dollars to private entities for their private investment purposes.

Taxpayers must decide what it is that government should and should not do with the precious dollars we choose to give it. Historically, the purpose of taxation has been to provide for the "general" welfare, not the specific welfare of special interest groups, particularly in the form of public/private partnerships. These schemes conflict with North Dakota's Constitutional prohibitions. Furthermore after 20 years of funding such schemes the facts are clear – these "investments" fail the vast majority of the time and taxpayers are left with nothing.

## **TAXING METHODS**

Politicians argue government must have a stable and reliable means of raising revenue to fund government programs. Most states have adopted what politicians like to call the “**Three Legged Stool**” of taxation –

- (1) Income tax,
- (2) Sales tax and
- (3) Property tax.

We’re told this provides balanced taxation and stability for government revenue collection.

Not all states have adopted the “Three Legged Stool” of taxation. Click here [\(B\)](#) to see the methods of taxation that each state has adopted. This chart shows states that have no personal income tax [\(D\)](#). This chart shows states without a corporate income tax [\(E\)](#). This chart shows those states without a general sales tax [\(C\)](#). There are currently no states that don’t impose a property tax.

Property taxes penalize the homeowner during an economic downturn. This is because rarely, if ever, do cities or counties reduce their spending. In fact, more often than not they increase spending. To do so they simply raise property taxes! It makes no difference that the homeowner has lost his/her job, had his/her hours reduced or has had to take a reduction in pay. In difficult economic times the property tax is used by government to fund increased spending. With sales and income taxes when a job is lost or income reduced the individual is not forced to pay sales tax and his/her income tax burden is reduced.

During difficult economic times, because of property taxes, one’s home becomes a liability. This should never happen. The home should be a place of security and refuge, not a liability. [Property taxes make ones’ home a liability.](#)

### **IT IS TIME TO SERIOUSLY DISCUSS & DEBATE ABOLISHING PROPERTY TAXES IN NORTH DAKOTA. - EMBRACING, NOT FEARING CHANGE -**

Change is one of the most frightening things humans confront. For many change is feared because of the unknown. For many others it is feared because it will change the status quo which have become comfortable. However, whether or not anyone wants change it will occur. The key is to take control of and direct change. Failure to do so will result in change happening without despite efforts to impact it. This type of change is always more harmful and distasteful than directed change.

Most, if not all of us have lived with property taxes all our lives and likely believe that they are simply as much a part of life as breathing. They aren’t. It is only that we have known nothing else. Thus, when the idea of abolishing/eliminating something we have thought was normal and natural – i.e. change the first reaction is to be defensive and to immediately think of all the reasons why such a change shouldn’t or can’t happen.

Our property tax system is simply broken. It no longer works; is unfair; unpredictable; is misused by those who can manipulate the system to benefit themselves or their friends at the expense of everyone else and worst of all makes it impossible for any of us to ever be secure in our home. We cannot be secure because we can never own our home – we most rent it from the government or forfeit it. This is no way for a free people to have to live.

The question often is asked, if we eliminate property taxes how will we pay for those services that are paid for with them? The truthful answer is actually clear and simple. Exactly the same way all government services are funded – from the earnings of citizens. The real question is which mechanism (*see Taxing Methods above*) will be used to extract our earnings. We believe the worst possible mechanism for collecting taxes is to permit government to hold a mortgage on our home. This deprives us of security in a home and makes government our landlord. Failure to pay the government for the privilege of living in our own home will result in its loss either through tax sale or forcing us to sell it if we cannot afford the tax burden. This conflicts with every concept of being a free people.

Taxes on our home are anathema to a free people. Taxes should, in a free society, never burden the people. They should not be used to grow government and/or bureaucracy. They should emphatically never be used to take from one individual to give to another. They should not be used to “redistribute” the earnings of the person who worked to gain those earnings.

Taxes in a free society should be used ONLY to fund basic and necessary government services that benefit the community as a whole.

The taxes necessary to provide basic and necessary government services can and should be funded through taxing mechanisms other than property taxes. As we have shown it is not necessary or even prudent for any political entity to have sales tax, income tax and property tax. In fact, there are states without sales tax ([C](#)), states without corporate income tax ([E](#)) and states without personal income tax ([D](#)). North Dakota can and should demonstrate that a state can very successfully provide the necessary and basic government services it was created to provide without the use of the property tax mechanism. Not only can it be done, by doing so will stimulate widespread economic development and allow those that earn money to keep it so they can spend it as they see fit.

The only way to determine whether or not North Dakota should abolish property taxes is to place the proposal before the voters. In so doing it will provide a forum to debate the issue; a forum to discuss the pros and cons.

It is important that we do this. It is important that those supporting an opposing fully and meaningfully debate the pros and cons so the voters can make an informed decision. Only in this manner can democracy work. Those who oppose this debate do so either

out of fear of change or because they have a vested interest in maintaining the system for their benefit and not for the benefit of the community at large.

After full and vigorous debate can voters make a reasoned decision whether or to abolish property taxes. This measure is proposed so the debate over abolishing property taxes will occur. We look forward to the debate and hope those who oppose abolishing property taxes will stand up and explain why they oppose it and why they believe the property tax system in North Dakota is good for taxpayers. This debate will be an opportunity for the taxpayers to learn:

- Why we propose abolishing property taxes,
- How the property tax system is broken,
- How much North Dakota's sales and income tax rates exceed what is necessary to provide needed and required government services,
- How property taxes are used to benefit special interests at the expense of their neighbors,
- Who supports property taxes and why & who opposes them and why,
- How abolishing property taxes is the most equitable and certain way to stimulate economic development,
- How property taxes have become governments private ATM machine,
- How and why property taxes go up when the economy goes down.

## **IF PROPERTY TAXES ARE ABOLISHED, HOW WILL WE FUND THOSE THINGS PROPERTY TAXES FUNDED?**

At first glance this would appear to be a major concern. However, when we look at total taxing in North Dakota it becomes evident that it isn't. North Dakota raises revenue for government services through state sales taxes, local option sales taxes, state income taxes, property taxes, gas taxes, oil and gas extraction taxes and a host of other taxes. When looking at the sources, the amounts raised, and how these tax dollars are currently being spent it is clear there is more than sufficient money raised to fund basic government services without the necessity of property taxes.

It is important we remember that all the costs of government are funded from the income we earn. The critical questions to ask are:

- What taxing mechanisms should we use to raise these revenues?
- How are the revenues being raised spent?

The question isn't who funds government expenditures. We know the answer to that – we do – the taxpayers do – those who earn money pay for all government expenditures. Since we pay for all costs of government as citizens and taxpayers we need to decide which mechanisms of taxation we wish to impose on ourselves and which we choose to not allow to be imposed. In the Q & A section [\(A\) \[#2\]](#) we more fully address this question

It is our belief that property taxes are the wrong way to raise revenues to fund government. Over the last decade state revenues have increased dramatically [\(F\)](#) [\(G\)](#) while we have had virtually no growth in population [\(M\)](#) [\(N\)](#).

It is interesting to note that this increase in revenue has come about without an increase in either state sales or income tax rates. Contrary to the perception of many this is not because of vastly increased revenues from oil and gas extraction fees [\(Y\)](#), page 4. Less than 20% of these revenues find their way to the general fund. The majority of this revenue is put into the Oil and Gas Trust Fund. It is projected that almost \$600 million will go into the trust fund during the current biennium.

When looking at how spending has increased and where the money has gone over the last decade and in particular over the last 6 years it becomes clear that hundreds of millions of dollars are being spent on questionable and inequitable funding. For example:

- North Dakota families are being taxed almost \$200,000,000 each year to subsidize the college students of out of state families who have never paid taxes in our state. There is no reason that North Dakota families should be taxed to subsidize the education of not only their children but also the children of families that don't pay taxes in our state.
- Taxpayers fund 100% of 11,000+ state employee health care policies (\$9,911.64 annually for each employee whether a single, single with dependent or family) [\(AD\)](#). While we respect and appreciate the work and services of our state employees how they are paid and the benefits they receive need to be carefully examined. A recent analysis [\(AM\)](#) shows the average state employee salary and benefit package is 26.5% higher than the average private sector salary and benefit package. The average private sector employee has 50% or less of his/her health premium covered by his/her employer. It is reasonable the same should be the case for state workers, particularly when the average state employee's overall compensation package more than 25% higher than the compensation package of the taxpayers who pay for their salary and benefit package. This would save North Dakota families more than \$55,000,000 each year.
- The cost of our K-12 school system has seen a steady 20 year decline in student enrollment. Between 1996 and 2006 while student enrollment declined 16.9% per student spending increased 95.1% [\(AI\)](#). During the same period the CPI rose 27.9% [\(AK\)](#) and personal income increased approximately 39%. During this period the teacher student ratio decreased from 12.5:1 to 9.9:1. Unfortunately, measurable test scores remained static. Between 1996 and projected spending for 2011 per student spending will go from \$6,149 to over \$16,000. Taxpayers are entitled to know and have reasonable explanations why and what they are getting for these dramatic increases. There are potentially tens of millions of dollars in spending for K-12 that is not resulting improved academic outcomes for our children. The question is when and who will undertake a thorough review to ensure not only taxpayers but their children are getting our money's worth?

- The state general fund has budgeted \$150,000 to support the State Horse Racing Commission. While this is not a great deal of money the question is why should taxpayers fund any of this expenditure?
- There are literally 100's and 100's of these types of expenditures. Expenditures that, while nice are unnecessary or not proper expenditures in the first place. Families must budget – so should our government, particularly when what it spends is our money not its.

In short much of what is currently funded with property taxes can and should be funded with the excess and improperly allocated sales and income tax revenues. If this does not cover the needs of local political sub-divisions, special assessment, local option sales taxes are available. The use of both of these options is much more democratic and fair. Both require that those who will be paying them vote to impose them. This is unlike the property tax where the property owner has **NO MEANINGFUL SAY** in the valuation of his/her home or the mill levy that is assessed against it.

## **WITHOUT PROPERTY TAXES HOW DO TAXPAYERS MAINTAIN ANY MEANINGFUL LOCAL CONTROL?**

The initiated measure [\(T\)](#) requires the legislature to fund K-12 schools not already funded by the legislature AND, *“The state cannot condition the expenditure of this portion of elementary and secondary education funding in any manner and school boards have sole discretion in how to allocate the expenditures of this portion of the elementary and secondary funding provided.”* This ensures local control of 30% of K-12 expenditures.

During the last legislative session (January – April of 2009) your Senators and Representatives voted to have 70% of the cost of K-12 schools funded from the general fund. Unfortunately they also provided that 70% of the additional funding had to be used to increase teacher salaries. While this may be appreciated – it stripped the local school board of control over the spending. Further, today 100% of total K-12 expenditures are under the control of DPI through imposition of the State Accreditation Manual.

If passed this Measure will give local School Boards complete control over 30% of their budget – an increase over what they currently have – which is none! This measure will increase local control over the school our children attend.

All other funding from the legislature to make up for the funding currently raised through property taxes is required to, *“fully and properly fund the legally imposed obligations of the counties, cities, townships and other political sub-divisions.”* The measure goes on to state, *“how counties, cities, townships, and other political subdivisions choose to allocate the expenditures of this revenue is at the sole direction of the governing bodies of counties, cities, townships and other political sub-divisions”.* This measure provides that how the revenue provided by the legislature is to be used at the **SOLE DIRECTION** of the local governing bodies.