State and Local Taxes

An Overview and Comparative Guide

2006

Cory Fong
Tax Commissioner

Greetings from the Commissioner

Cory Fong,
Tax Commissioner

Dear Friend,

I am pleased to provide you with the 2006 Edition of North Dakota State and Local Taxes: An Overview and Comparative Guide (a.k.a. The Red Book). The publication is designed for anyone who wants to learn more about North Dakota's taxes. It brings together the tax laws, a historical perspective of those taxes, and combines the latest data with comparisons and rankings with other states.

North Dakota is experiencing record levels of growth in the economy and in tax collections. In 2006 Forbes ranked North Dakota as 13th of all 50 states in their survey of The Best States for Business. It is easy to see why. Through the vision, leadership, and commitment of state officials and industry leaders, North Dakota has created a progressive and business-friendly environment. This is evidenced by recent developments that have helped to diversify our state into new and interesting endeavors, such as biodiesel, wind energy, and technology.

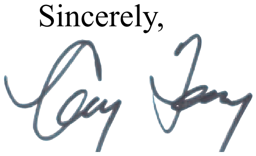
The Office of State Tax Commissioner is steadfast in its commitment to ensuring that North Dakota's tax law administration is as fair and burden-free as possible. And, one of our top priorities continues to be providing the best customer service possible.

Efficient use of technology has provided the department with many opportunities to improve our longstanding commitment to providing quality customer service. We continue to search for the most cost efficient ways to meet our collection responsibilities and provide the best service possible to taxpayers, tax practitioners, and the public.

I am proud of the accomplishments of the department and equally proud of the department's employees who work hard every day to maintain the highest standards of performance and integrity.

I am always interested in hearing from you. Please feel free to share with me your suggestions and input concerning North Dakota taxes and our department.

Sincerely,



Cory Fong
Tax Commissioner

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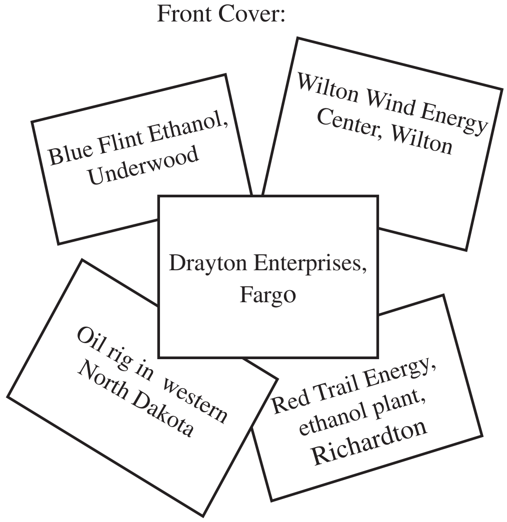

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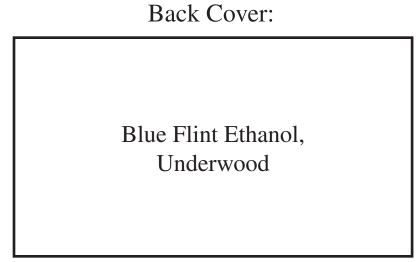
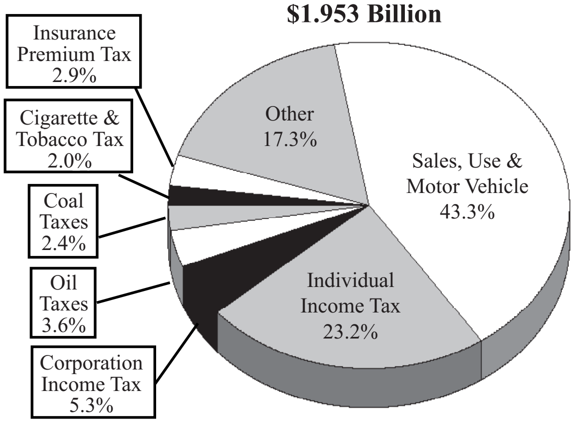


REVENUE OVERVIEW

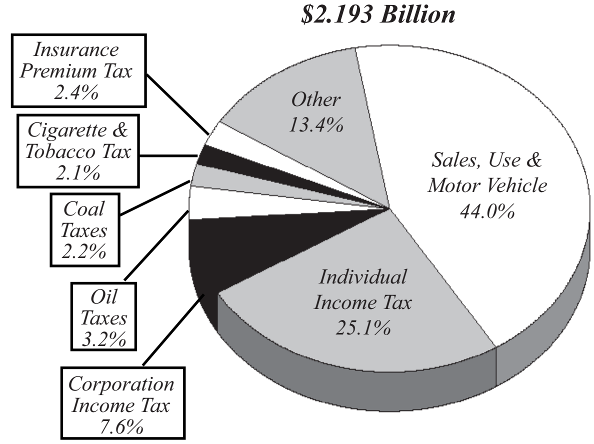
This chapter contains historical comparisons of North Dakota revenue. General fund information is given, as well as trends in collections.

Comparison of Revenue Sources
Percent of Total
State General Fund

2003-05 BIENNIUM
$1.953 Billion

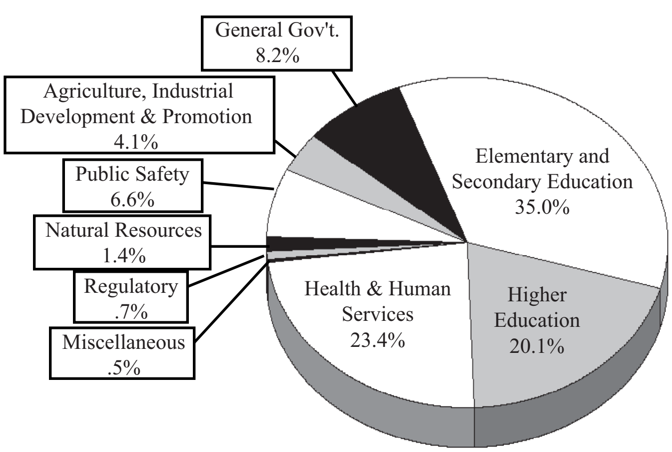


(PROJECTED)
2005-07 BIENNIUM
$2.193 Billion

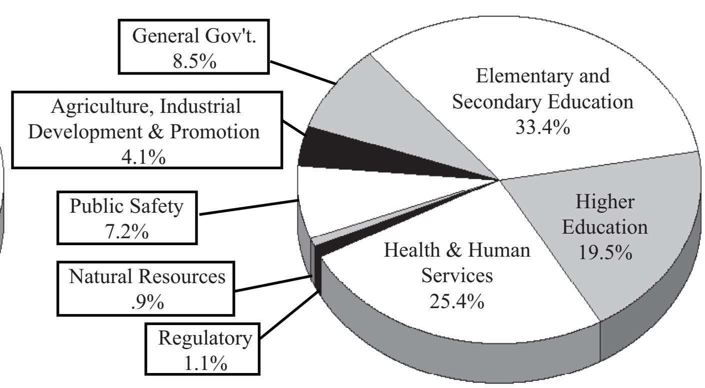


Comparison of Expenditures
Percent of Total
State General Fund

2003-05 General Fund Expenditures By Program
Total = $1.798 Billion



2005-07 General Fund Appropriations (1)
Total = $1.989 Billion



(1) This is the amount appropriated by the 2005 Legislative Assembly. Actual expenditures will vary from appropriated levels.

SOURCE: Office of Management and Budget.

State General Fund Budget by Revenue Sources

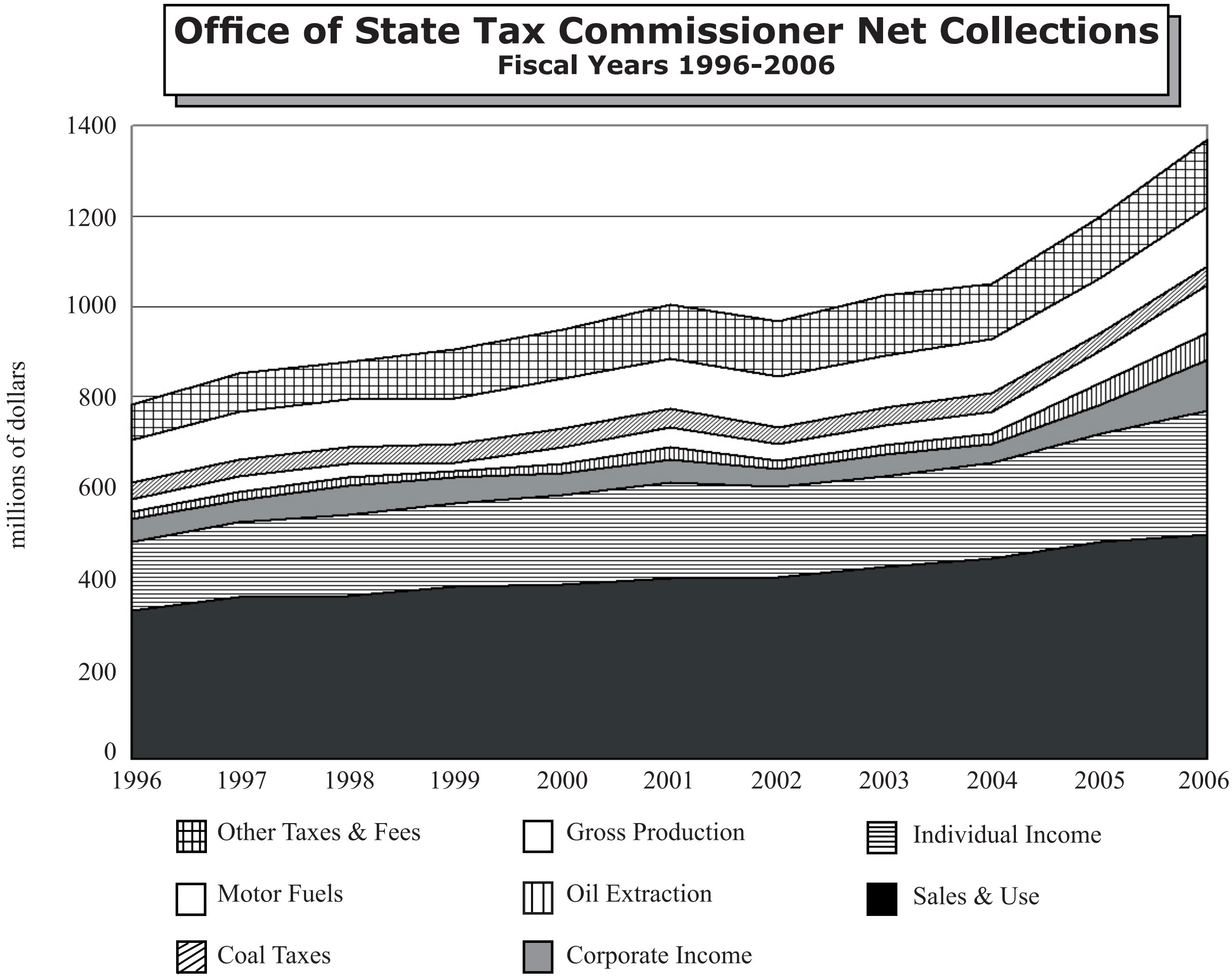
1995-97 through 2005-07 Biennia (in Millions)

REVENUE SOURCES	Biennium Revenues					*Projected 2005-07 Biennium*
	1995-97	1997-99	1999-01	2001-03	2003-05	
INTEREST, MINERAL LEASES, TRANSFERS						
- Interest Income	15.555	19.014	20.832	8.509	6.935	25.158
- Mineral Leasing Fees	5.630	7.258	9.532	6.441	11.025	13.430
- Bank of ND Profits Transfer	50.215	29.600	50.000	78.700	60.000	60.000
- State Mill Profits Transfer	1.000	3.000	3.000	6.000	5.000	5.000
- Gas Tax Administration Transfer	1.072	1.129	1.381	1.363	1.396	1.400
- Budget Stabilization Fund Transfer						
- State Aid Distribution Fund Transfer (1)	21.980	28.017				
- Other Transfers	3.000	8.697	5.159	24.370	91.412	88.216
SALES, USE AND MOTOR VEHICLE	605.471	664.365	722.182	760.211	845.768	964.195
INDIVIDUAL INCOME TAX	315.516	358.288	409.331	396.153	452.547	550.524
CORPORATION INCOME TAX	99.348	123.420	99.135	88.417	102.927	166.680
OIL TAXES	55.030	43.677	62.000	62.000	71.000	71.000
COAL TAXES	46.310	46.383	47.846	46.879	47.197	48.522
CIGARETTE AND TOBACCO TAXES	45.030	44.091	41.706	39.313	39.477	45.191
INSURANCE PREMIUM TAX	36.969	33.133	39.113	48.990	56.285	52.246
WHOLESALE LIQUOR TAX	10.339	11.140	10.322	11.156	11.889	12.586
BUSINESS PRIVILEGE TAX/ FINANCIAL INSTITUTIONS TAX	3.854	6.494	5.465	6.257	4.959	7.372
GAMING TAXES	22.848	22.802	27.438	27.613	20.851	18.654
LOTTERY					7.269	12.000
DEPARTMENTAL FEES & COLLECTIONS	28.737	32.997	40.816	57.506	61.005	50.727
OTHER					56.457	
TOTAL GENERAL FUND REVENUES	**1,381.369**	**1,483.505**	**1,595.258**	**1,669.878**	**1,953.398**	**2,192.900**
BEGINNING BALANCE	31.151	65.000	61.114	62.241	14.790	68.563
REVENUES AND BEGINNING BALANCE	1,412.520	1,548.505	1,656.372	1,732.119	1,968.188	2,261.463
FUNDS RELATED TO PRIOR BIENNIUM CARRY-OVER AND ADJUSTMENTS	5.527	8.172	10.155	13.996	0	0
REVENUE AVAILABLE DURING BIENNIUM	1,418.047	1,556.677	1,666.527	1,746.115	1,968.188	2,261.463
GENERAL FUND EXPENDITURES	1,328.655	1,485.463	1,592.975	1,723.561	1,798.211	1,989.453
TRANSFER TO BUDGET STABILIZATION FUND					99.473	
OBLIGATIONS CARRIED OVER TO FUTURE PERIODS	8.482	7.275	11.311	7.764	1.941	
UNOBLIGATED ENDING BALANCE	**82.117**(2)	**61.114**	**62.241**	**14.790**	**68.563**	**272.010**

(1) A portion of sales, use and motor vehicle excise taxes is deposited in the State Aid Distribution Fund (S.A.D.F.) and that revenue is not included in this table. As of January 1, 1999, the portion is 40% x 1% ÷ general sales tax rate. However, during the two biennia shown, the legislature transferred funds from the S.A.D.F. to the General Fund as shown in the table.

(2) House Bill 1015 provided that any amount in the general fund over \$65 million be transferred to the Bank of North Dakota. Seventeen million (\$17 million) was transferred to the Bank of North Dakota, leaving an ending fund balance of \$65 million.

(3) Federal Fiscal Relief payments deposited in the General Fund.

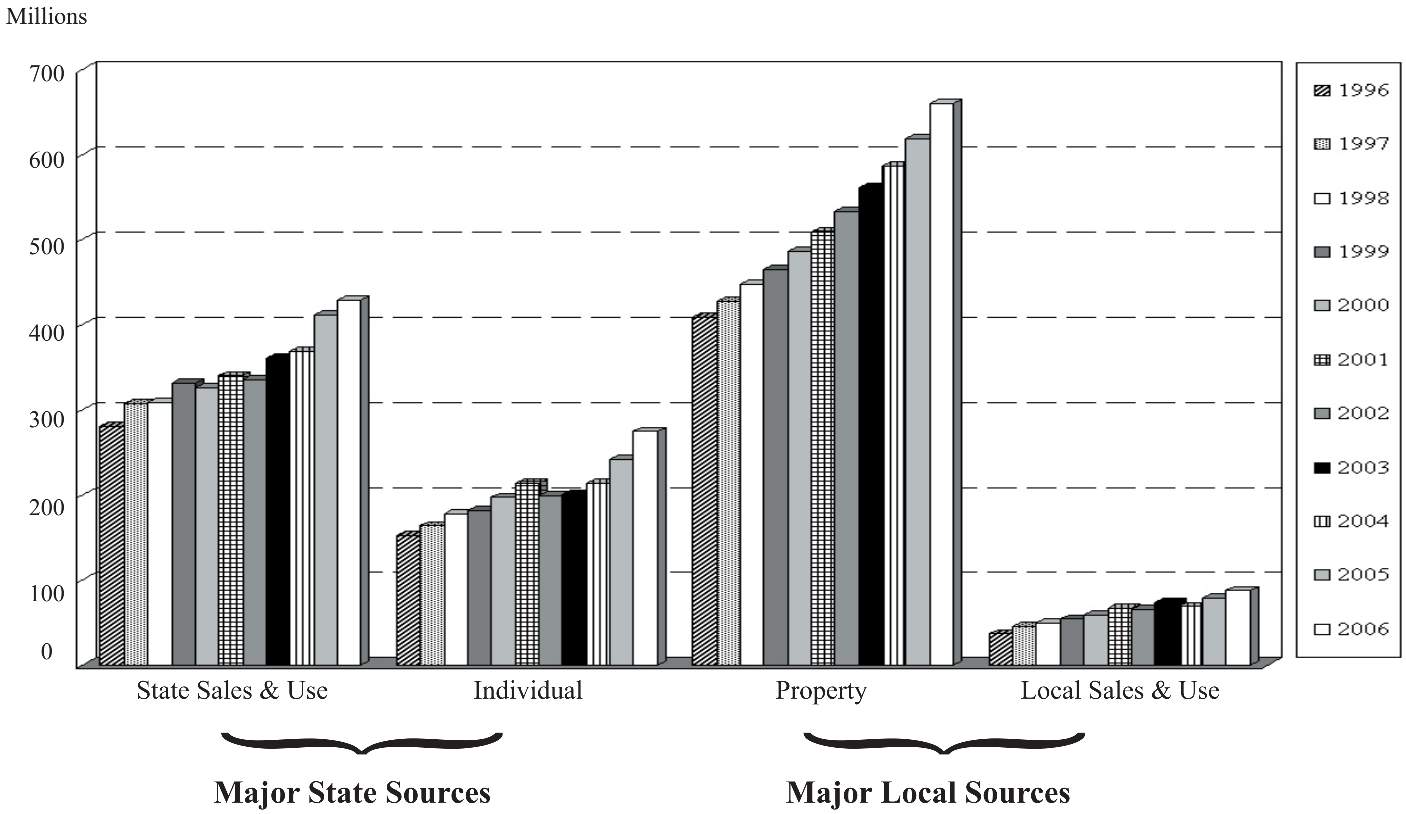


Tax Type	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales & Use	329.1	358.9	363.2	383.2	386.6	398.6	401.6	424.9	441.4	480.6	495.6
Ind. Income	152.1	163.7	177.9	181.4	198.3	213.4	198.9	200.5	214.1	241.3	274.6
Corp. Income	49.0	50.3	65.5	57.9	47.5	51.6	41.6	46.0	40.3	62.7	111.8
Oil Extraction	16.5	19.1	15.3	12.1	21.0	24.8	17.1	22.6	25.6	45.6	61.8
Gross Production	26.9	34.8	29.5	22.7	38.0	46.0	36.5	43.5	47.5	74.0	104.4
Coal Taxes	37.9	37.6	37.3	38.3	39.0	39.5	38.2	39.4	40.6	37.7	39.8
Motor Fuels	96.0	103.7	105.1	103.1	111.8	112.7	111.7	115.3	119.9	122.2	134.1
Other Taxes & Fees	75.6	82.4	86.0	106.9	108.9	117.7	121.3	131.2	121.9	135.5	148.0
Total Net Collections*	783.2	850.5	879.8	905.4	951.1	1004.3	966.9	1023.4	1051.3	1199.7	1370.0

*Totals may not sum due to rounding

SOURCE: Office of State Tax Commissioner

Source of Major State and Local Taxes
1996-2006



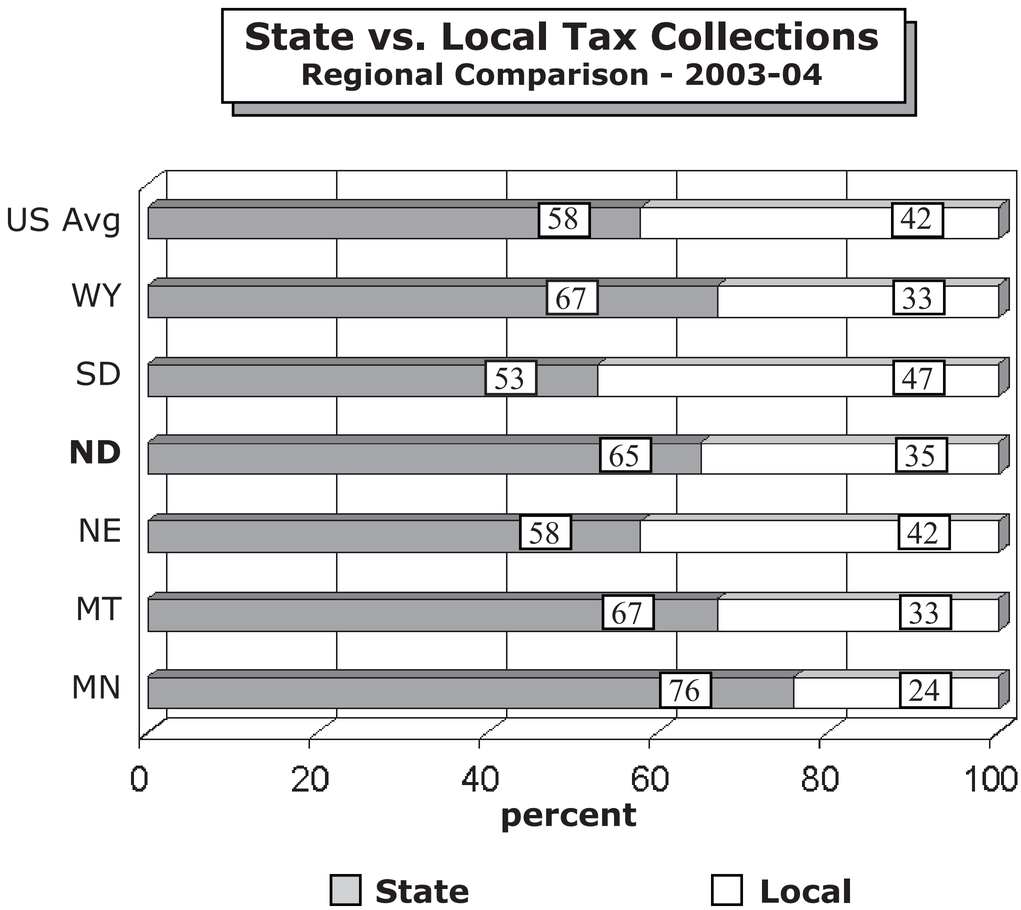
Fiscal Year	State Sales & Use Tax	Individual Income Tax	Property Tax	Local Sales & Use Tax
1996	280,319,012	152,087,864	408,353,215	36,534,413
1997	307,583,834	163,732,247	427,677,147	45,184,127
1998	308,636,871	177,904,251	447,582,274	48,929,646
1999	331,027,859	181,389,034	465,203,396	54, 058,001
2000	326,261,978	197,101,325	486,194,264	58,711,263
2001	340,114,569	213,442,150	509,032,721	66,961,363
2002	335,598,693	198,922,525	532,629,675	65,368,838
2003	360,908,220	200,528,205	560,751,909	73,666,551
2004	368,323,637	214,145,899	586,412,017	68,644,864
2005	411,553,514	241,319,731	618,065,693	78,761,154
2006	428,906,406	274,621,741	659,789,376	87,563,544

* The local sales tax figures do not include city occupancy or city restaurant and lodging taxes.

SOURCE: Office of State Tax Commissioner.

STATE COMPARISONS

This chapter provides a comparison of overall tax levels between the states.* There are a variety of ways to rank and compare state taxes. We have used a number of different sources to give you a broad range of research. Each measurement provides insights, but also has limitations. Please contact the Office of State Tax Commissioner for more information about the various measurements.



SOURCE: US Bureau of Census. "Government Finance"

* *The rankings of specific types of taxes are found throughout this publication. Those comparisons are located within the chapter relating to that particular type of tax.*

Comparing the 50 States' Combined State/Local Tax Burdens in 2006
(Measuring Taxes as a Percentage of Income)

Each state's total tax burden (taxes as a percentage of income) is a combination of federal, state, and local tax burdens. It can be instructive to strip out federal taxes and compare just the state and local tax burdens. Generally, high-income states rise because, with their high costs of living and commensurately higher salaries, they are hit harder by the progressive federal income tax. Low-income states that have high state-local tax burdens fall in the ranking when federal taxes are added in.

	State and Local			Total		Change in Ranking After Adding Federal Taxes
	Tax Burden	Rank		Tax Burden	Rank	
Maine	13.5%	1	Maine	33.1%	7	-6
New York	12.9%	2	New York	35.1%	2	0
Ohio	12.0%	3	Ohio	31.3%	16	-13
Minnesota	11.9%	4	Minnesota	33.6%	5	-1
Hawaii	11.7%	5	Hawaii	31.2%	17	-12
Nebraska	11.6%	6	Nebraska	30.9%	22	-16
Wisconsin	11.6%	7	Wisconsin	32.2%	12	-5
Rhode Island	11.5%	8	Rhode Island	33.0%	8	0
Connecticut	11.3%	9	Connecticut	35.9%	1	8
Vermont	11.1%	10	Vermont	31.3%	15	-5
Louisiana	11.0%	11	Louisiana	29.2%	37	-26
Indiana	11.0%	12	Indiana	30.7%	24	-12
Washington	10.9%	13	Washington	33.7%	4	9
Illinois	10.9%	14	Illinois	32.7%	10	4
California	10.9%	15	California	32.7%	9	6
Michigan	10.8%	16	Michigan	31.1%	19	-3
New Jersey	10.8%	17	New Jersey	34.3%	3	14
Kansas	10.7%	18	Kansas	30.5%	26	-8
Maryland	10.7%	19	Maryland	32.0%	13	6
Kentucky	10.7%	20	Kentucky	29.8%	31	-11
West Virginia	10.6%	21	West Virginia	29.1%	41	-20
Utah	10.5%	22	Utah	29.5%	34	-12
North Carolina	10.5%	23	North Carolina	30.3%	27	-4
Pennsylvania	10.4%	24	Pennsylvania	31.2%	8	16
Georgia	10.4%	25	Georgia	30.6%	25	0
Iowa	10.4%	26	Iowa	29.4%	36	-10
Arkansas	10.3%	27	Arkansas	29.1%	40	-13
Massachusetts	10.3%	28	Massachusetts	33.4%	6	22
Mississippi	10.2%	29	Mississippi	28.0%	48	-19
South Carolina	10.2%	30	South Carolina	29.2%	38	-8
Idaho	10.2%	31	Idaho	29.0%	42	-11
Arizona	10.1%	32	Arizona	29.9%	29	3
Wyoming	10.1%	33	Wyoming	32.4%	11	22
Missouri	9.9%	34	Missouri	29.4%	35	-1
Oregon	9.9%	35	Oregon	30.2%	28	7
New Mexico	9.9%	36	New Mexico	28.5%	45	-9
NORTH DAKOTA	**9.8%**	**37**	**NORTH DAKOTA**	**29.8%**	**30**	**7**
Colorado	9.8%	38	Colorado	30.7%	23	15
Florida	9.7%	39	Florida	31.0%	21	18
Oklahoma	9.6%	40	Oklahoma	28.2%	47	-7
Virginia	9.5%	41	Virginia	31.1%	20	21
Montana	9.5%	42	Montana	29.0%	43	-1
Nevada	9.5%	43	Nevada	31.6%	14	29
Texas	9.4%	44	Texas	29.7%	32	12
South Dakota	9.2%	45	South Dakota	28.9%	44	1
Alabama	8.8%	46	Alabama	27.5%	50	-4
Tennessee	8.8%	47	Tennessee	28.2%	46	1
Delaware	8.4%	48	Delaware	29.7%	33	15
New Hampshire	7.3%	49	New Hampshire	29.2%	39	10
Alaska	6.6%	50	Alaska	27.9%	49	1
District of Columbia	12.8%	-	District of Columbia	35.1%	-	-
U.S. Average	10.6%		U.S. Average	31.6%		

Source: Bureau of Economic Analysis & Tax Foundation Calculations

Taxes Per Capita and as a Percent of Income, Calendar Year 2006, by State

	Per Capita Total Taxes	Per Capita Federal Taxes	Per Capita State/Local Taxes	Per Capita Income	Total Taxes as % of Income	Federal Taxes as % of Income	State/Local Taxes as % of Income	Total Taxes as % of Income Rank	State & Local Taxes as % of Income Rank
United States	$12,122	$8,050	$4,072	$38,376	31.6	21.0	10.6	-	-
Alabama	8,977	6,096	2,881	32,599	27.5	18.7	8.8	50	46
Alaska	11,019	8,420	2,598	39,499	27.9	21.3	6.6	49	50
Arizona	9,919	6,569	3,350	33,156	29.9	19.8	10.1	29	32
Arkansas	8,742	5,654	3,088	29,999	29.1	18.8	10.3	40	27
California	13,433	8,982	4,451	41,022	32.7	21.9	10.9	9	15
Colorado	12,877	8,779	4,098	41,987	30.7	20.9	9.8	23	38
Connecticut	19,097	13,079	6,018	53,152	35.9	24.6	11.3	1	9
Delaware	12,155	8,729	3,426	40,964	29.7	21.3	8.4	33	48
Florida	11,385	7,820	3,566	36,734	31.0	21.3	9.7	21	39
Georgia	10,496	6,932	3,564	34,327	30.6	20.2	10.4	25	25
Hawaii	11,952	7,455	4,496	38,269	31.2	19.5	11.7	17	5
Idaho	8,995	5,835	3,159	31,031	29.0	18.8	10.2	42	31
Illinois	13,045	8,710	4,355	39,902	32.7	21.8	10.9	10	14
Indiana	10,622	6,825	3,796	34,647	30.7	19.7	11.0	24	12
Iowa	10,518	6,809	3,709	35,807	29.4	19.0	10.4	36	26
Kansas	11,030	7,144	3,885	36,209	30.5	19.7	10.7	26	18
Kentucky	9,425	6,043	3,383	31,639	29.8	19.1	10.7	31	20
Louisiana	9,162	5,699	3,463	31,358	29.2	18.2	11.0	37	11
Maine	11,562	6,843	4,719	34,935	33.1	19.6	13.5	7	1
Maryland	14,898	9,902	4,996	46,562	32.0	21.3	10.7	13	19
Massachusetts	16,427	11,380	5,047	49,203	33.4	23.1	10.3	6	28
Michigan	11,431	7,467	3,965	36,751	31.1	20.3	10.8	19	16
Minnesota	13,890	8,960	4,930	41,363	33.6	21.7	11.9	5	4
Mississippi	28,591	5,068	2,924	28,591	28.0	17.7	10.2	48	29
Missouri	10,409	6,899	3,509	35,408	29.4	19.5	9.9	35	34
Montana	9,479	6,371	3,108	32,719	29.0	19.5	9.5	43	42
Nebraska	11,419	7,122	4,294	36,999	30.9	19.2	11.6	22	6
Nevada	12,542	8,794	3,758	39,683	31.6	22.1	9.5	14	43
New Hampshire	12,464	9,328	3,136	42,707	29.2	21.8	7.3	39	49
New Jersey	16,667	11,433	5,234	48,590	34.3	23.5	10.8	3	17
New Mexico	8,747	5,717	3,031	30,642	28.5	18.7	9.9	45	36
New York	15,632	9,899	5,734	44,571	35.1	22.2	12.9	2	2
North Carolina	10,220	6,694	3,526	33,732	30.3	19.8	10.5	27	23
NORTH DAKOTA	**10,379**	**6,957**	**3,421**	**34,808**	**29.8**	**20.0**	**9.8**	**30**	**37**
Ohio	11,271	6,939	3,421	36,054	31.3	19.2	12.0	16	3
Oklahoma	9,221	6,092	3,129	32,661	28.2	18.7	9.6	47	40
Oregon	10,659	7,167	3,492	35,300	30.2	20.3	9.9	28	35
Pennsylvania	12,118	8,061	4,057	38,849	31.2	20.7	10.4	8	24
Rhode Island	13,308	8,679	4,629	40,331	33.0	21.5	11.5	8	8
South Carolina	9,195	5,982	3,213	31,480	29.2	19.0	10.2	38	30
South Dakota	10,000	6,824	3,177	34,647	28.9	19.7	9.2	44	45
Tennessee	9,764	6,785	2,979	34,568	28.2	19.6	8.8	46	47
Texas	10,665	7,297	3,368	35,913	29.7	20.3	9.4	32	44
Utah	9,127	5,866	3,261	30,917	29.5	19.0	10.5	34	22
Vermont	11,600	7,482	4,118	37,025	31.3	20.2	11.1	15	10
Virginia	13,247	9,191	4,056	42,642	31.1	21.6	9.5	20	41
Washington	13,387	9,053	4,334	39,705	33.7	22.8	10.9	4	13
West Virginia	8,823	5,611	3,212	30,317	29.1	18.5	10.6	41	21
Wisconsin	11,950	7,661	4,289	37,115	32.2	20.6	11.6	12	7
Wyoming	13,251	9,131	4,120	40,912	32.4	22.3	10.1	11	33
Dist. of Columbia	22,132	14,040	8,092	63,044	35.1	22.3	12.8	--	--

Note: Totals may not sum due to rounding.

SOURCE: Bureau of Economic Analysis and Tax Foundation calculations

Estimated Burden of Major State & Local Taxes for a Family of Three - 2005

$25,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$114	$238	$308	$0	$0	$246
Property	$1,176	$1,351	$1,970	$1,344	$1,378	$1,510
Sales	$597	$0	$568	$814	$792	$673
Auto	$184	$245	$216	$168	$167	$211
Total	$2,071	$1,834	$3,062	$2,326	$2,337	$2,639
% of Income	8.3%	7.3%	12.2%	9.3%	9.3%	10.6.%
National rank	50	51	15	46	44	33

$50,000 Gross Family Income

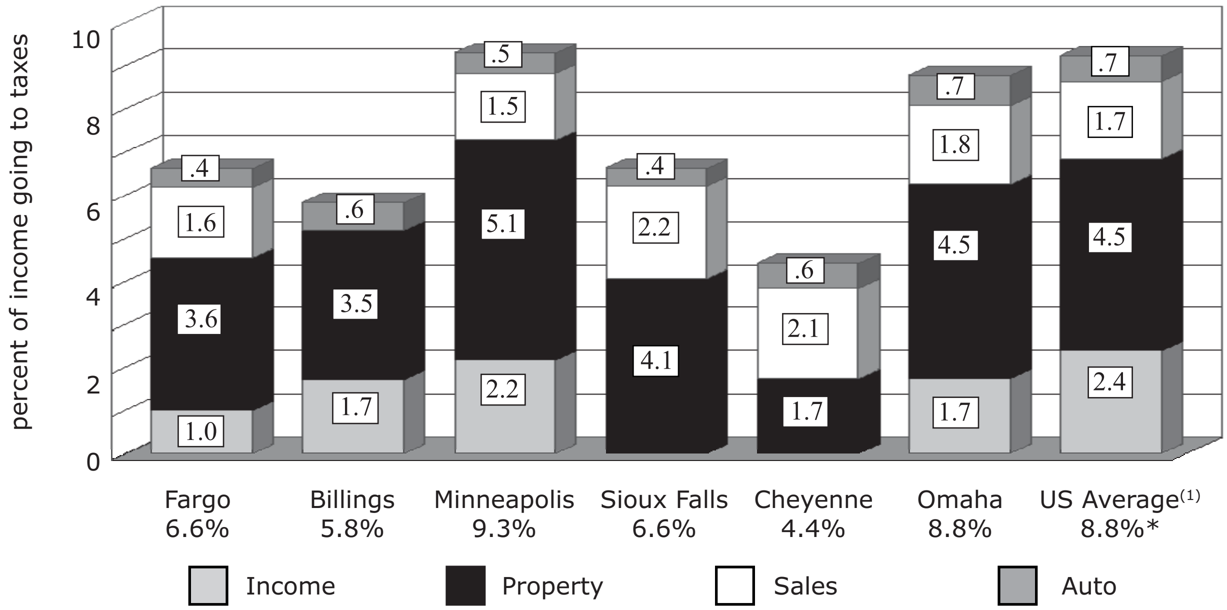
Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$496	$860	$1,083	$0	$0	$869
Property	$1,766	$1,736	$2,558	$2,032	$870	$2,256
Sales	$819	$0	$772	$1,077	$1,051	$908
Auto	$219	$321	$233	$201	$287	$352
Total	$3,300	$2,917	$4,646	$3,311	$2,208	$4,385
% of Income	6.6%	5.8%	9.3%	6.6%	4.4%	8.8%
National rank	41	47	18	40	50	24

$100,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$1,801	$3,966	$4,227	$0	$0	$3,808
Property	$2,664	$2,100	$3,195	$3,210	$1,249	$3,188
Sales	$1,426	$0	$1,352	$1,827	$1,774	$1,638
Auto	$407	$799	$451	$393	$698	$817
Total	$6,298	$6,865	$9,226	$5,430	$3,721	$9,451
% of Income	6.3%	6.9%	9.2%	5.4%	3.7%	9.5%
National rank	43	41	26	46	50	18

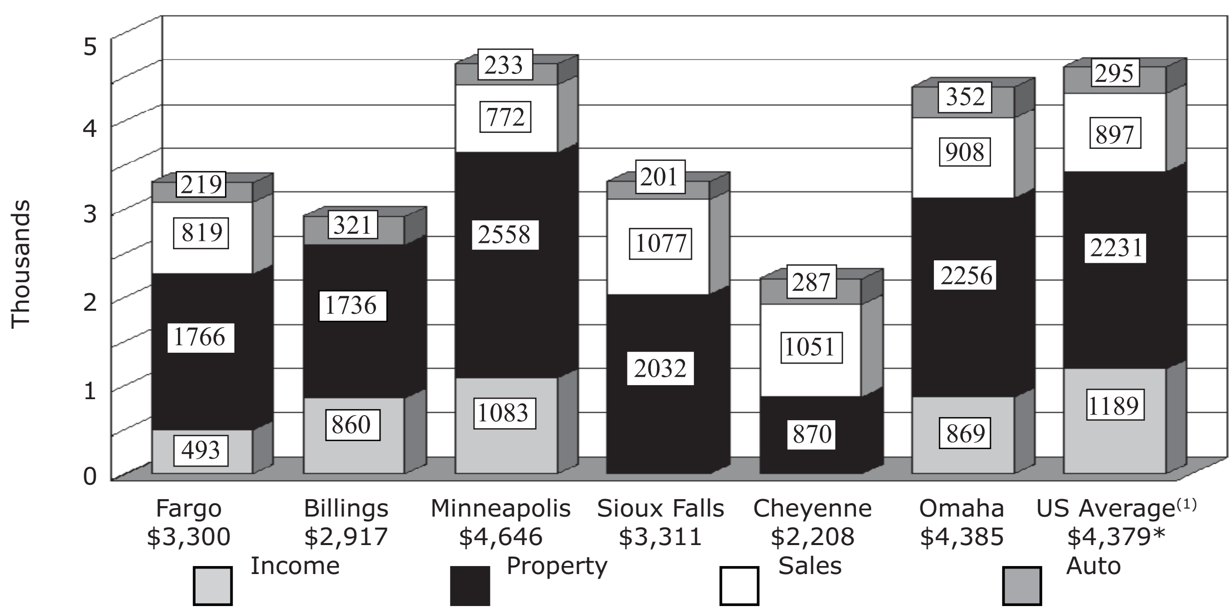
SOURCE: Tax Rates and Tax Burdens In the District of Columbia - A Nationwide Comparison 2005, Government of the District of Columbia.

Major Taxes as a Percent of Income
Family of 3 - $50,000 per year



SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2005, Government of the District of Columbia

Major Tax Burden for Family of Three
Earning $50,000 per year



* Amounts may not add due to rounding.

(1) Based on cities actually leving tax

SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2005, Government of the District of Columbia

State Taxes by Source - Fiscal Year 2005

	General Sales & Use	Individual Income	Corporate Income	Motor Fuels	Licenses	All Other
Alabama	25.4 %	34.9 %	4.7 %	7.4 %	5.7 %	21.8 %
Alaska	--	--	24.7	3.7	6.8	64.8
Arizona	50.6	24.7	4.1	7.4	3.2	10.1
Arkansas	38.1	29.6	3.2	8.2	4.7	16.2
California	30.6	42.5	6.9	4.2	7.3	8.4
Colorado	27.5	50.2	3.0	8.2	4.0	7.1
Connecticut	33.7	40.8	1.7	4.7	4.5	14.7
Delaware	--	33.0	11.6	5.0	35.9	14.6
Florida	58.1	--	4.9	7.3	6.3	23.5
Georgia	35.1	47.1	4.1	4.7	3.6	5.4
Hawaii	47.1	32.5	1.5	2.3	3.3	13.3
Idaho	35.0	37.1	3.4	9.4	9.8	5.3
Illinois	28.6	30.9	9.2	6.1	8.5	16.7
Indiana	38.0	35.4	6.7	6.7	3.0	10.2
Iowa	34.9	35.3	1.8	6.9	10.4	10.8
Kansas	37.4	38.6	2.5	7.8	4.8	8.9
Kentucky	29.0	33.6	3.8	5.8	6.8	21.1
Louisiana	31.7	24.2	3.6	7.6	7.0	25.9
Maine	31.8	40.8	2.9	7.3	5.7	11.4
Maryland	24.9	43.5	3.3	6.5	4.0	17.8
Massachusetts	24.9	53.4	5.5	4.5	3.4	8.3
Michigan	35.6	28.0	9.4	5.0	5.9	16.0
Minnesota	28.9	42.1	4.2	4.8	6.7	13.3
Mississippi	49.5	20.8	4.1	8.7	6.4	10.5
Missouri	32.9	41.7	3.5	8.0	5.4	8.6
Montana	--	35.9	4.7	13.3	13.8	32.3
Nebraska	35.7	38.5	3.6	10.3	6.5	5.3
Nevada	52.5	--	--	6.7	11.1	29.7
New Hampshire	--	3.8	20.0	6.4	9.1	60.7
New Jersey	32.7	37.3	6.0	2.9	5.2	15.9
New Mexico	36.9	27.1	3.4	5.5	4.7	22.4
New York	19.9	59.1	5.2	1.1	2.4	12.2
North Carolina	20.7	46.8	4.3	7.8	5.7	14.8
NORTH DAKOTA	**30.0**	**17.9**	**4.5**	**9.9**	**9.2**	**28.5**
Ohio	32.6	42.5	3.9	7.0	8.0	6.1
Oklahoma	25.3	37.8	2.9	6.8	13.6	13.7
Oregon	--	71.5	3.8	7.8	9.7	7.3
Pennsylvania	33.1	30.4	5.4	7.9	9.4	13.7
Rhode Island	34.4	38.7	1.3	6.1	4.3	15.1
South Carolina	40.6	34.0	3.8	7.2	5.4	9.1
South Dakota	53.6	--	4.2	12.6	13.6	16.0
Tennessee	60.0	1.9	6.5	10.4	10.7	10.6
Texas	50.8	--	--	9.9	13.2	26.1
Utah	38.2	40.9	2.8	8.6	3.8	5.7
Vermont	14.0	24.4	2.4	5.6	4.5	49.0
Virginia	21.9	52.5	2.4	6.6	4.2	12.3
Washington	62.6	--	--	5.9	5.0	26.5
West Virginia	27.1	29.1	6.2	8.4	4.9	24.2
Wisconsin	31.3	42.1	4.4	8.1	5.5	8.6
Wyoming	40.7	--	--	6.9	8.7	43.7
U.S. Total	33.5 %	34.7 %	4.9 %	6.0 %	6.6 %	14.3 %

SOURCE: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census.

Total State Tax Collections Per Capita - Fiscal Year 2005

Rank	State	Per Capita Total State Tax Collections
1	Vermont	$3,600
2	Hawaii	$3,478
3	Wyoming	$3,418
4	Connecticut	$3,300
5	Delaware	$3,229
6	Minnesota	$3,094
7	Massachusetts	$2,815
8	Alaska	$2,799
9	California	$2,724
10	New Jersey	$2,631
11	New York	$2,607
12	Rhode Island	$2,443
13	Wisconsin	$2,430
14	Maryland	$2,410
15	West Virginia	$2,367
16	Washington	$2,360
17	Arkansas	$2,358
18	Michigan	$2,324
19	Maine	$2,323
20	New Mexico	$2,319
21	**NORTH DAKOTA**	$2,203
22	Pennsylvania	$2,193
23	Kentucky	$2,179
24	Nebraska	$2,158
25	North Carolina	$2,147
26	Virginia	$2,104
27	Ohio	$2,094
28	Nevada	$2,075
29	Illinois	$2,069
30	Idaho	$2,054
31	Indiana	$2,049
32	Kansas	$2,040
33	Montana	$2,004
34	Iowa	$1,939
35	Oklahoma	$1,933
36	Louisiana	$1,910
37	Florida	$1,905
38	Utah	$1,897
39	Mississippi	$1,860
40	Arizona	$1,854
41	Oregon	$1,791
42	Georgia	$1,728
43	South Carolina	$1,720
44	Alabama	$1,711
45	Tennessee	$1,678
46	Missouri	$1,645
47	Colorado	$1,640
48	New Hampshire	$1,544
49	Texas	$1,434
50	South Dakota	$1,430
	US Average	$2,190

SOURCE: US Department of Commerce, Census Bureau.

Total State Taxes Except Severance Taxes Per Capita - Fiscal Year 2005

Rank	State	Total Tax Less Severance Tax
1	Vermont	$3,600
2	Hawaii	$3,478
3	Connecticut	$3,300
4	Delaware	$3,229
5	Minnesota	$3,088
6	Massachusetts	$2,815
7	California	$2,724
8	New Jersey	$2,631
9	New York	$2,607
10	Rhode Island	$2,443
11	Wisconsin	$2,429
12	Maryland	$2,410
13	Washington	$2,353
14	Arkansas	$2,351
15	Maine	$2,323
16	Michigan	$2,318
17	West Virginia	$2,198
18	Pennsylvania	$2,193
19	Nebraska	$2,157
20	North Carolina	$2,146
21	Kentucky	$2,124
22	Virginia	$2,103
23	Ohio	$2,093
24	Illinois	$2,069
25	Nevada	$2,058
26	Idaho	$2,052
27	Indiana	$2,049
28	Kansas	$1,997
29	New Mexico	$1,950
30	Iowa	$1,939
31	Florida	$1,902
32	Utah	$1,868
33	Arizona	$1,849
34	Mississippi	$1,837
35	Wyoming	$1,835
36	Montana	$1,810
37	**NORTH DAKOTA**	**$1,791**
38	Oregon	$1,788
39	Louisiana	$1,752
40	Georgia	$1,728
41	South Carolina	$1,720
42	Oklahoma	$1,718
43	Alabama	$1,679
44	Tennessee	$1,678
45	Missouri	$1,645
46	Colorado	$1,608
47	New Hampshire	$1,544
48	South Dakota	$1,427
49	Alaska	$1,405
50	Texas	$1,331
	US Average	$2,162

SOURCE: US Department of Commerce, Census Bureau.

Tax Freedom Day 2006, by State

State	Tax Freedom Day	Rank	Total Taxes	Federal Taxes	State/ Local Taxes
			Average number of days spent working to pay:		
Connecticut	May 12	1	132	90	42
New York	May 9	2	129	82	47
New Jersey	May 6	3	126	86	40
Washington	May 4	4	124	84	40
Minnesota	May 3	5	123	79	44
Massachusetts	May 2	6	122	84	38
Maine	May 1	7	121	71	50
Rhode Island	May 1	8	121	79	42
California	April 30	9	120	80	40
Illinois	April 30	10	120	80	40
Wyoming	April 29	11	119	82	37
Wisconsin	April 28	12	118	75	43
Maryland	April 27	13	117	77	40
Nevada	April 26	14	116	81	35
Vermont	April 25	15	115	74	41
Ohio	April 25	16	115	71	44
Hawaii	April 24	17	114	71	43
Pennsylvania	April 24	18	114	75	39
Michigan	April 24	19	114	74	40
Virginia	April 24	20	114	79	35
Florida	April 24	21	114	78	36
Nebraska	April 23	22	113	70	43
Colorado	April 22	23	112	76	36
Indiana	April 22	24	112	72	40
Georgia	April 22	25	112	74	38
Kansas	April 22	26	112	72	40
North Carolina	April 21	27	111	72	39
Oregon	April 21	28	111	74	37
Arizona	April 20	29	110	73	37
NORTH DAKOTA	**April 19**	**30**	**109**	**73**	**36**
Kentucky	April 19	31	109	69	40
Texas	April 19	32	109	74	35
Delaware	April 19	33	109	78	31
Utah	April 18	34	108	69	39
Missouri	April 18	35	108	71	37
Iowa	April 18	36	108	70	38
Louisiana	April 17	37	107	66	41
South Carolina	April 17	38	107	69	38
New Hampshire	April 17	39	107	80	27
Arkansas	April 17	40	107	69	38
West Virginia	April 17	41	107	68	39
Idaho	April 16	42	106	68	38
Montana	April 16	43	106	71	35
South Dakota	April 16	44	106	72	34
New Mexico	April 15	45	105	68	37
Tennessee	April 14	46	104	72	32
Oklahoma	April 14	47	104	69	35
Mississippi	April 13	48	103	65	38
Alaska	April 12	49	102	77	25
Alabama	April 11	50	101	68	33
District of Columbia	May 9	--	129	82	47

SOURCE: Tax Foundation

INDIVIDUAL INCOME TAXES

CURRENT LAW

Individual Income Tax

Filing Requirements

Every resident of North Dakota who has a federal income tax filing requirement is required to file a North Dakota income tax return.

Every nonresident who has a federal income tax filing requirement and derives income from North Dakota (except interest and dividends from nonbusiness sources, pensions and annuities) is required to file a North Dakota income tax return. There are exceptions for certain Native Americans, interstate transportation employees, and Minnesota and Montana residents.

An individual income tax return is due April 15.

Choice of Methods

Two filing methods are available to individuals:
- Main method (on Form ND-1)
- Optional method (on Form ND-2)

The same filing status (that is, single, married filing jointly, head of household, etc.) used for federal purposes must be used when filing for state purposes.

Main Method (Form ND-1)

Approximately 97% of all individuals who file a North Dakota income tax return use the main method, Form ND-1. The main method usually yields a lower tax liability than the optional method [See Optional Method (Form ND-2) later.]

Taxable Income. Under the main method, North Dakota taxable income for most individuals will equal federal taxable income. For some individuals, North Dakota taxable income must be calculated by adjusting federal taxable income by:
- Adding a lump-sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting 30% of a net long-term capital gain allocable to North Dakota.
- Subtracting interest income from U.S. obligations.
- Subtracting exempt income of a Native American.
- Subtracting retirement, unemployment, and sick pay benefits from the U.S. Railroad Retirement Board.
- Subtracting income from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting income exempted under the new or expanding business exemption.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting the pay received by a nonresident for service in the U.S. armed forces.
- Subtracting up to $10,000 of medical expenses and lost wages for donating a human organ.

Tax Rates. Under the main method, the applicable tax rates depend on the taxpayer's filing status. The tax rates applicable to each filing status for the 2006 tax year are as follows:

Single

ND taxable income		Tax rate
First	$ 30,650	2.1%
Next	$ 43,550	3.92%
Next	$ 80,600	4.34%
Next	$ 181,750	5.04%
Over	$ 336,550	5.54%

Married filing jointly or qualifying widow(er)

ND taxable income		Tax rate
First	$ 51,200	2.1%
Next	$ 72,500	3.92%
Next	$ 64,750	4.34%
Next	$ 148,100	5.04%
Over	$ 336,550	5.54%

Married filing separately

ND taxable income		Tax rate
First	$ 25,600	2.1%
Next	$ 36,250	3.92%
Next	$ 32,375	4.34%
Next	$ 74,050	5.04%
Over	$ 168,275	5.54%

Head of household

ND taxable income		Tax rate
First	$ 41,050	2.1%
Next	$ 64,950	3.92%
Next	$ 65,650	4.34%
Next	$ 164,900	5.04%
Over	$ 336,550	5.54%

The income brackets are indexed for inflation each year. A 3-year income averaging method is available for calculating the tax on farm income if the taxpayer elects to use the federal 3-year income averaging method.

Nonresident Tax Calculation. Under the main method, residents and nonresidents calculate North Dakota taxable income the same way. For a nonresident, however, the tax calculated on North Dakota taxable income (which includes income from all sources) is multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income (reduced by interest from U.S. obligations and nonresident's military pay).

Credits. Tax credits are available under the main method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Making a planned gift to a qualified North Dakota nonprofit organization.
- Blending biodiesel fuel as a wholesaler.
- Adding equipment necessary to sell biodiesel fuel as a retailer.

Optional Contributions. A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees For North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

Optional Method (Form ND-2)

Only about 3% of all individuals who file a North Dakota income tax return use the optional method, Form ND-2. This method generally yields a higher tax than the main method. There are a number of special deductions and credits allowed only under the optional method that may benefit the taxpayer. In most cases, these are not enough to offset the higher tax rates that apply under this method. It is recommended that taxpayers compare the tax under the main and optional methods to see which one yields the lowest tax.

Taxable Income. Under the optional method, North Dakota taxable income is calculated by adjusting federal taxable income by:

- Adding interest income earned on state and local government obligations (except North Dakota).
- Adding state and local income taxes deducted on the federal return.
- Adding a lump sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting state and local income tax refunds included in income on the federal return.
- Subtracting federal income taxes paid.
- Subtracting $300 if the filing status is married filing jointly, head of household, or surviving spouse.
- Subtracting $1,750 for an adopted child under the age of 21 in the year the adoption becomes final.
- Subtracting up to $1,000 of the costs of adopting a child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act in the year the adoption becomes final.
- Subtracting $750 for an adopted child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act.
- Subtracting medical expenses not allowed on the federal return due to the 7.5% limitation.
- Subtracting retirement, unemployment, and sick pay benefits from the U.S. Railroad Retirement Board.
- Subtracting up to $5,000 of military retirement benefits; federal retirement benefits; and North Dakota firefighter, police and highway patrol retirement benefits.
- Subtracting interest from U.S. obligations.
- Subtracting up to $300 of interest ($600 if joint return) from North Dakota financial institutions.
- Subtracting the gain on the sale or exchange of stock of an eligible corporation that relocates significant operations to North Dakota and generates new wealth in the state.

- Subtracting up to $5,000 ($10,000 if joint return) of an investment in a North Dakota venture capital corporation.
- Subtracting income exempted under the new or expanding business exemption.
- Subtracting income from the sale or lease of a business under the Beginning Entrepreneur Program.
- Subtracting income from the sale or lease of farmland under the Beginning Farmer Program.
- Subtracting exempt income of a Native American.
- Subtracting a gain recognized on property subject to eminent domain sale or transfer.
- Subtracting income from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting up to $1,000 of pay received for service in the U.S. armed forces.
- Subtracting up to $300 per month of pay received for overseas service in the U.S. armed forces.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting the pay received by a nonresident for service in the U.S. armed forces.
- Subtracting up to $10,000 of medical expenses and lost wages for donating a human organ.

Tax Rates. On the optional method form, the following tax rates apply regardless of the taxpayer's filing status.

ND taxable income		Tax rate
First	$ 3,000	2.67%
Next	$ 2,000	4.00%
Next	$ 3,000	5.33%
Next	$ 7,000	6.67%
Next	$ 10,000	8.00%
Next	$ 10,000	9.33%
Next	$ 15,000	10.67%
Over	$ 50,000	12.00%

Nonresident Tax Calculation. Under the optional method, a nonresident calculates North Dakota taxable income by including only the items of income and loss sourced in North Dakota. The personal and dependency exemptions, and the standard deduction or itemized deductions, claimed for federal tax purposes are multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income.

Credits. Tax credits are available under the optional method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Contributing to a qualifying nonprofit private high school or college in North Dakota.
- Paying premiums for a long-term care insurance policy.
- Installing a geothermal, solar, or wind energy device on property owned or leased in North Dakota.
- Investing in a North Dakota venture capital corporation.
- Investing in the North Dakota Small Business Investment Company.
- Investing in a certified nonprofit development corporation.
- Paying wages to a developmentally disabled or chronically mentally ill employee.
- Making a planned gift to a qualified North Dakota nonprofit organization.
- Blending biodiesel fuel as a wholesaler.
- Adding equipment necessary to sell biodiesel fuel as a retailer.

Optional Contributions. A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees for North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

Payment of Estimated Tax

Individuals are required to pay estimated North Dakota income tax if all of the following conditions apply:

1. The individual is required to pay estimated federal income tax; AND
2. The individual's previous year's net tax liability was $500 or greater; AND
3. The individual expects to owe, after subtracting withholding, at least $500; AND
4. The individual expects withholding to be less than the smaller of:
   a. 90% of current year's net tax liability or
   b. 100% of previous year's net tax liability. (This does not apply if the individual moves into North Dakota during the previous year.)

Withholding

An employer is required to withhold North Dakota income tax from the wages of an employee if federal income tax is required to be withheld from such wages. Wages paid by farmers and ranchers are exempt from North Dakota withholding requirements.

North Dakota withholding is computed using one of the following three methods:

- **Method 1: Percentage of Wages (Primary Method)**
  This method is similar to the IRS's Percentage Method in Publication 15 (Circular E). It is the method recommended for use in all cases.
- **Method 2: Percent of Federal Withholding (Alternative Method)**
  This method is an alternative to Method 1, the Primary Method. The federal income tax withheld from the wages is multiplied by a flat rate determined by the Office of State Tax Commissioner. This method generally works for employees with wages under $18,000, if single, or $30,000, if married. Use of this method for employees with wages over the $18,000 or $30,000 level is permitted, but it will result in over withholding.
- **Method 3: Withholding Tables**
  This method is identical to Method 1, the primary method, except that no calculations are required. Instead, a table is used to look up the withholding amount.

Employers must register with the North Dakota Office of State Tax Commissioner. Forms to register for income tax withholding, sales and use tax permit, unemployment insurance and workers compensation purposes are part of a consolidated registration package.

New Jobs Training Program. Under the New Jobs Training Program, a new or expanding primary sector business may use income tax withheld from new employees to pay for the cost of training the employees. Application for the program is made through Job Service North Dakota.

Fiduciary Income Tax (Estates and Trusts)

A fiduciary for a resident trust or estate, or a fiduciary for a nonresident trust or estate which derives income from North Dakota sources, must file a North Dakota fiduciary income tax return if required to file a federal fiduciary income tax return.

Two filing methods are available on the fiduciary income tax return: the Main Method and the Optional Method, which are the same as the two methods for individual income tax.

Tax Rates. Under the main method, the applicable tax rates for the 2006 tax year are as follows:

ND taxable income		Tax rate
First	$ 2,050	2.10%
Next	$ 2,800	3.92%
Next	$ 2,550	4.34%
Next	$ 2,650	5.04%
Over	$ 10,050	5.54%

Under the optional method, the tax rates and corresponding taxable income brackets are the same as those under the optional method (Form ND-2) for individuals.

The requirement for an estate or trust to pay estimated North Dakota income tax also follows the same rules applicable to individuals. A beneficiary of an estate or trust may be required to file a North Dakota income tax return to report the income distributed or distributable to the beneficiary.

A fiduciary income tax return is due April 15.

Distribution of Revenue

All revenue from the individual income tax is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1977. The state's first income tax law was imposed in 1919. In 1923, it was revised and patterned after federal income tax law. Between 1923 and 1977, numerous changes were made to the law.

1977 Session. A tax credit for the installation of a solar or wind energy device was created.

1978 Initiated Measure. Voters in the 1978 General Election passed a measure decreasing individual income tax rates.

1979 Session. The beginning farmer program deductions, a deduction for gains from property subject to eminent domain, and a credit for contributions to nonprofit private high schools were created. The 1% business privilege tax was repealed for tax years after 1980.

1980 Initiated Measure. In the 1980 General Election, voters approved the oil extraction tax initiated measure that included an energy cost relief credit of up to $100.

1981 Session. The simplified optional short form system was created for individuals, on which the tax was determined by multiplying the federal income tax liability by a flat tax rate of 7½%. For long form filers, the beginning businessman program deductions, a deduction for interest from a North Dakota financial institution, and a tax credit for installing a geothermal energy device were created.

1983 Session. The energy cost relief credit was repealed. The tax rate on the simplified optional short form was increased to 10½%. The tax rates on the long form were increased, ranging from 2% on the first $3,000 of taxable income to 9% on taxable income over $50,000.

1985 Session. For long form filers, a tax credit for investing in a venture capital corporation and a deduction for an adopted child under the age of 21 were created.

1986 Special Session. General income tax withholding and estimated income tax laws were created. The simplified optional short form tax rate was increased to 14%. The tax rates on the long form were proportionally increased, ranging from 2.67% on the first $3,000 of taxable income to 12% on taxable income over $50,000.

1987 Referred Measure. State voters upheld the 1986 Special Session changes increasing the tax rates and creating the general withholding and estimated tax laws.

1987 Session. A 10% surtax on state income tax liability was created for tax year 1987 only. Beginning in 1988, the tax return had to include a line for an optional contribution to the nongame wildlife fund. For long form filers, tax credits were added for investment in the Myron G. Nelson Fund, Inc., and for wages paid to a developmentally disabled or chronically mentally ill employee.

1989 Session. On the long form, deductions were created for federal retirement benefits not previously eligible, for highway patrol retirement benefits, and for investment in a venture capital corporation or the Myron G. Nelson Fund, Inc. A credit was created on the long form for an investment in a nonprofit development corporation, and beginning in 1989, the tax return had to include a line for an optional contribution to the centennial tree program trust fund. Taxpayers must use the same filing status and the same standard or itemized deductions used for federal purposes. North Dakota income tax law was perpetually federalized for tax years beginning after December 31, 1988. The short form tax rate increased to 17%. The long form tax rates were increased proportionately, ranging from 3.24% on the first $3,000 of taxable income to 14.57% on taxable income over $50,000.

1989 Referral Election. Tax rate increases passed by the 1989 Legislature were rejected in a December Special Election.

1991 Session. A deduction was created for distributions from mutual funds that hold U.S. government securities. Wages paid by farmers and ranchers were exempted from withholding requirements. The North Dakota Taxpayer Bill of Rights was created. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-adding primary sector and tourism businesses.

1993 Session. Credits were added to the long form for "seed capital investment" in a new or expanding business, for long term care insurance premiums, and for alternative fuel equipment installed on motor vehicles. The New Jobs Training Program was created to allow new or expanding businesses to use income tax withheld from new employees to pay for the employees' training. Also, a limited liability company form of business entity was legalized.

1994 Special Session. The project size limitations were removed as qualifications for the new or expanding business tax exemption.

1995 Session. A deduction was added to the long form for part of the gain on sale or exchange of stock of a corporation that relocates significant operations to North Dakota. The number of new jobs a business must create to qualify for the New Jobs Training Program was decreased. The Myron G. Nelson Fund, Inc. was changed to the Small Business Investment Company, a state established limited partnership. Authorized the taxation of a nonresident's income from gambling in North Dakota.

1997 Session. A tax credit for qualified care expenses to avoid the placement of a qualifying family member in a long-term care facility was created on the long form. An individual who files a claim for unemployment compensation benefits may elect to have federal and state income tax withheld from the benefits.

1999 Session. The interest rate on refunds was increased from 10% per year to 1% per month.

2001 Session. The simplified short form method (on which the tax was calculated as a percentage of the federal tax liability) was repealed. It was replaced with a method that uses federal taxable income as the starting point in calculating North Dakota taxable income, to which is applied a set of five tax rates–2.1%, 3.92%, 4.34%, 5.04%, and 5.54%. Each rate corresponds to one of five income brackets, each of which varies by filing status (that is, single, married filing jointly, head of household, etc). The estimated income tax requirements for individuals, estates, and trusts were changed to provide that no estimated tax has to be paid if the preceding tax year's net tax liability is less than $500. The threshold for filing an annual withholding return by an employer was increased to $500. A credit was created for investing in a North Dakota agricultural commodity processing facility. The partnership provisions were changed to exempt guaranteed payments of a nonresident partner of a professional service partnership for work performed outside North Dakota. Changes were made to the Renaissance Zone Act provisions, including the addition of rehabilitation work as a qualifying transaction. On the long form, the deduction for adopting a child under age 21 was increased to $1,750 with a 5-year carryforward of an unused amount, and the geothermal, solar, and wind energy device credit was allowed for a device installed on property leased by the taxpayer.

2003 Session. The seed capital investment tax credit rate was increased to 45%, and thresholds on eligible investments and credits were increased. A payroll service provider who electronically transmits an employer's withholding return and taxes for federal purposes must electronically transmit the state withholding returns and taxes. The legislature required the Tax Commissioner to conduct a tax amnesty program. The new or expanding business income exemption was allowed on Form ND-1. On Form ND-2, the dividend deduction was repealed. A deduction was created for compensation that a National Guard or Reserve member receives for federal active duty service.

2005 Session. The long-term capital gain exclusion on Form ND-1 was limited to a gain allocable to North Dakota. Lottery winnings are subjected to income tax withholding. The geothermal, solar, or wind energy device credit is changed to allow a five-year carryforward of an unused credit. A deduction of up to $10,000 of medical expenses and lost wages related to a human organ donation is created. A passthrough entity is required to withhold income tax from the distributive shares of income of its nonresident individual owners or beneficiaries. A credit for blending biodiesel fuel by a supplier is created. A credit for adding equipment necessary for the retail sale of biodiesel fuel is created. The seed capital and ag commodity investment tax credit provisions were changed to allow the credits to corporations and all passthrough entities and to revise various limitation provisions. A credit for planned gifts to qualified North Dakota nonprofit organizations was created.

Individual Income Tax Collections

Fiscal Year	Net Collections
1996	152,087,864
1997	163,732,247
1998	177,904,251
1999	181,389,034
2000	198,287,830
2001	213,442,150
2002	198,922,525
2003	200,528,205
2004	214,145,899
2005	241,319,731
2006	274,621,741
2007 est.	278,045,000

SOURCE: North Dakota Office of State Tax Commissioner

Per Capita Comparison of Individual Income Tax Collections *
Fiscal Year 2005

State	Rank	Per Capita
Massachusetts	1	$1,514
New York	2	$1,459
Connecticut	3	1,434
Oregon	4	$1,291
Minnesota	5	$1,235
California	6	$1,190
Virginia	7	$1,104
Hawaii	8	$1,084
Delaware	9	$1,046
Maryland	10	$1,011
Wisconsin	11	$987
Maine	12	$983
North Carolina	13	$971
New Jersey	14	$943
Rhode Island	15	$928
Ohio	16	$823
Colorado	17	$808
Georgia	18	$807
Vermont	19	$803
Nebraska	20	$792
Utah	21	$780
Montana	22	$762
Iowa	23	$760
Kansas	24	$747
Idaho	25	$728
Kentucky	26	$728
Oklahoma	27	$696
Missouri	28	$692
Arkansas	29	$675
Indiana	30	$672
Pennsylvania	31	$666
West Virginia	32	$645
South Carolina	33	$633
Illinois	34	$622
Michigan	35	$604
New Mexico	36	$563
Alabama	37	$556
Louisiana	38	$529
Arizona	39	$480
Mississippi	40	$402
NORTH DAKOTA	41	**$380**
New Hampshire	42	$52
Tennessee	43	$26

* Seven states levy no individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Comparison of Individual Income Tax Features By State
Information available as of August 1, 2006[A]

State	Starting Point[E]	Standard Deduction[B]		Exemptions[C]		Federal Tax Deduction[F]	Filing Status[G]	Marginal Tax Rates[D]	
		Single	Joint	Personal	Dependent			Low	High (No. of brackets)
Alabama	State	$2,000	$4,000	$1,500	$300	Yes	State	2.00% [H]	5.00% over $3,000 [H] (3)
Alaska	-	-	-	-	-	-	-	No income tax	
Arizona	FAGI	4,050	8,100	2,100	2,300	No	State	2.73% [H]	4.79% over $150,000 [H,I] (5)
Arkansas	State	2,000 [J]	4,000 [J]	21 [K,L]	21 [K,L]	No	State	1.00%	7.00% over $29,200 [M,N] (6)
California	FAGI	3,254	6,508	87 [K,L]	272 [K,L]	No	SAF	1.00% [H]	9.30% over $41,476 [H,L,O] (6)
Colorado	FTI	SAF	SAF	SAF	SAF	No	SAF	4.63% of FTI	
Connecticut	FAGI	0	0	12,625 [P]	0	No	SAF	3.00% [H,Q]	5.00% over $10,000 [H,Q] (2)
Delaware	FAGI	3,250	6,500	110 [L]	110 [L]	No	State	2.20%	5.95% over $60,000 (6)
Florida	-	-	-	-	-	-	-	No income tax	
Georgia	FAGI	2,300	3,000	2,700	2,700	No	SAF	1.00% [R]	6.00% over $7,000 [R] (6)
Hawaii	FTI	1,500	1,900	1,040	1,040	No	State	1.40% [H]	7.60% over $40,000 [H,M] (7)
Idaho	FTI	SAF	SAF	SAF	SAF	No	SAF	1.60% [H]	7.80% over $23,178 [H,I,M] (8)
Illinois	FAGI	0	0	2,000	2,000	No	SAF	3.00% of FAGI	
Indiana	FAGI	0	0	1,000	2,500	No	SAF	3.40% of FAGI	
Iowa	FAGI	1,610 [J]	3,970 [J]	40 [L]	40 [L]	Yes	State	0.36%	8.98% over $58,500 [I] (9)
Kansas	FAGI	3,000	6,000	2,250	2,250	No	SAF	3.50% [H]	6.45% over $30,000 [H] (3)
Kentucky	FAGI	1,970 [J]	1,970 [J]	20 [L]	20 [L]	No	State	2.00%	6.00% over $75,000 (6)
Louisiana	FAGI	0 [S]	0 [S]	4,500 [S]	1,000 [S]	Yes	SAF	2.00% [H]	6.00% over $25,000 [H] (3)
Maine	FAGI	5,150	8,600	2,850	2,850	No	SAF	2.00% [R]	8.50% over $18,250 [I,R] (4)
Maryland	FAGI	2,000 [T]	4,000 [T]	2,400	2,400	No	SAF	2.00%	4.75% over $3,000 (4)
Massachusetts	FAGI	0	0	3,850 [K]	1,000 [K]	No	State	5.30% of MA taxable income [U]	
Michigan	FAGI	0	0	3,300 [K]	3,300 [K]	No	State	3.90% of FAGI	
Minnesota	FTI	SAF	SAF	SAF	SAF	No	SAF	5.35% [R]	7.85% over $67,360 [I,R] (3)
Mississippi	State	2,300	4,600	6,000	1,500	No	State	3.00%	5.00% over $10,000 (3)
Missouri	FAGI	5,150	10,300	2,100	1,200	Yes	SAF	1.50%	6.00% over $9,000 (10)
Montana	FAGI	3,560 [J,V]	7,120 [J,V]	1,900 [K]	1,900 [K]	Yes	State	1.00%	11.00% over $77,800 [I,M] (10)
Nebraska	FAGI	5,150 [J,W]	10,300 [J,W]	103 [K,L,X]	103 [K,L,X]	No	SAF	2.56% [R]	6.84% over $27,000 [R] (4)
Nevada	-	-	-	-	-	-	-	No income tax	
New Hampshire	State	0	0	2,400	0	No	State	5.00% of NH taxable income [Y]	
New Jersey	State	0	0	1,000	1,500	No	SAF	1.40%	8.97% over $500,000 (6)
New Mexico	FAGI	5,150	10,300	3,300	3,300	No	SAF	1.70% [R]	5.70% over $16,000 [R,M] (4)
New York	FAGI	7,500	15,000	0	1,000	No	SAF	4.00% [H]	6.85% over $20,000 [H] (5)
North Carolina	FTI	3,000 [Z]	6,000 [Z]	2,500 [Z]	2,500 [Z]	No	SAF	6.00% [R]	8.25% over $120,000 [R] (4)
North Dakota	FTI	SAF	SAF	SAF	SAF	No	SAF	2.10%	5.54% over $336,550 [M] (5)
Ohio	FAGI	0	0	1,350 [K,AA]	1,350 [K]	No	SAF	0.681%	6.87% over $200,000 (9)
Oklahoma	FAGI	2,000	3,000	1,000	1,000	Yes	SAF	0.50% [R]	6.25% over $10,500 [R,M] (8)
Oregon	FAGI	1,770	3,545	154 [L]	154 [L]	Yes	State	5.00% [H]	9.00% over $6,850 [H,I] (3)
Pennsylvania	State	0	0	0	0	No	State	3.07% of PA taxable income	
Rhode Island	FTI	SAF	SAF	SAF	SAF	No	SAF	3.75%	9.90% over $336,550 [I] (5)
South Carolina	FTI	SAF	SAF	SAF	SAF	No	SAF	2.50%	7.00% over $12,850 [I,BB,M] (6)
South Dakota	-	-	-	-	-	-	-	No income tax	
Tennessee	State	0	0	0	0	No	State	6.00% of TN taxable income [CC]	
Texas	-	-	-	-	-	-	-	No income tax	

State	Starting Point[E]	Standard Deduction[B] Single	Joint	Exemptions[C] Personal	Dependent	Federal Tax Deduction[F]	Filing Status[G]	Marginal Tax Rates[D] Low	High (No. of brackets)
Utah	FTI	SAF	SAF	2,475 [DD]	2,475	Yes	SAF	2.30% [H]	7.00% over $4,313 [H] (6)
Vermont	FTI	SAF	SAF	SAF	SAF	No	SAF	3.60%	9.5% over $336,550 [L,M] (5)
Virginia	FAGI	3,000	6,000	900	900	No	State	2.00%	5.75% over $17,000 (4)
Washington	-	-	-	-	-	-	-	No income tax	
West Virginia	FAGI	0	0	2,000	2,000	No	State	3.00%	6.5% over $60,000 (5)
Wisconsin	FAGI	8,170 [J,EE]	14,710 [J,EE]	700	700	No	State	4.60% [R]	6.75% over $137,410 [I,M,R] (4)
Wyoming	-	-	-	-	-	-	-	No income tax	
District of Columbia	FAGI	2,500 [J]	2,500 [J]	1,500	1,500	No	State	4.50%	8.70% over $40,000 (3)

[A] Information in this table generally applies to the 2006 tax year. However, some information may be tax year 2005 information due to unavailability of updated information at the time this table was printed. Also, the information in this table is only intended to provide a glimpse at some of the major features of the states' individual income tax systems. For complete details, exceptions to the general rules, and the most up-to-date information, contact the appropriate state tax agency or check their web site. To access state tax agency web sites, go to www.taxadmin.org/fla/link/.

[B] SAF ("same as federal") indicates the state's starting point automatically includes the federal standard deduction, as indexed for inflation.

[C] SAF ("same as federal") indicates the state's starting point automatically includes the federal exemption amount, as indexed for inflation.

[D] Only the low and high marginal tax rates are shown. The total number of different tax rate brackets is shown in parentheses following the high marginal rate. Unless indicated otherwise, the tax rates and income brackets are the same for single persons (except head of household) and married persons filing a joint return.

[E] The starting point indicates where the state begins the tax calculation. This amount may be adjusted up or down depending on each state's tax policy. The abbreviations mean the following: FAGI=federal adjusted gross income; FTI=federal taxable income; State=defined by state law.

[F] Indicates whether the federal income tax is allowed to be deducted in calculating the state's taxable income.

[G] SAF ("same as federal") indicates the federal filing status (that is, single, married filing jointly, head of household, or married filing separately) must be used for state purposes. "State" indicates that, in the case of married persons, either a joint or separate returns may be filed for state purposes regardless of the filing status used for federal tax purposes, which may be an important choice depending on the applicable tax rates.

[H] The amount of income in each bracket is doubled for married persons filing a joint return.

[I] Tax brackets are indexed for inflation.

[J] Standard deduction amount is indexed for inflation.

[K] Exemption amount is indexed for inflation.

[L] In lieu of a deduction from income, a tax credit is allowed, which reduces the tax dollar-for-dollar.

[M] Indicates that the state provides a break for capital gains in the form of an exclusion, lower tax rate, or tax credit that is generally available to all taxpayers.

[N] A special low-income tax rate schedule applies for single filers with gross income over $7,700 but less than $11,400, and for married persons filing jointly with gross income over $15,500 but less than $16,200.

[O] On taxable income over $1 million, a 1% surcharge is added.

[P] This is a single exemption amount that applies to the return. It is reduced by $1,000 for each $1,000 of state adjusted gross income over $25,250. In the case of married persons filing jointly, the exemption amount that applies is $24,000, which must be reduced by $1,000 for each $1,000 of state adjusted gross income over $48.000.

[Q] The calculated tax is reduced by a general tax credit ranging from 1%-75% of the tax for single filers with adjusted gross income below $55,000 and for married persons filing jointly with adjusted gross income below $100,500.

[R] Amount of income in each bracket differs for married persons filing jointly. Following is the high tax rate bracket in the case of married persons filing jointly: GA-6% over $10,000; ME-8.5% over $36,550; MN-7.85% over $119,100; NE-6.84% over $46,750; NM-5.3% over $24,000; NC-8.25% over $200,000; OK-6.25% over $15,000; and WI-6.75% over $183,210.

[S] The standard deduction and exemption amounts are combined (the total of which is shown in the column for exemptions).

[T] The standard deduction is 15% of income with a minimum of $1,500 and a maximum of $2,000 for single filers; $3,000 and $4,000, respectively, for married persons filing jointly.

[U] A 12% tax rate applies to short-term capital gains, long-and short-term capital gains on collectibles, and pre-1996 installment sales classified as capital gain income for state purposes.

[V] Single filer: Greater of $1,580 or 20% of adjusted gross income, up to a maximum of $3,560. Married persons filing jointly: Greater of $3,160 or 20% of adjusted gross income, up to a maximum of $7,120.

[W] Begins to phase out when adjusted gross income reaches the same adjusted gross income amount for phaseout of federal itemized deductions.

[X] The exemption credit begins to phase out at adjusted gross income over $73,000 for single filers and $122,000 for married persons filing jointly.

[Y] New Hampshire has a limited income tax that only applies to interest and dividend income.

[Z] The starting point is federal taxable income; however, the state does not recognize increases in the federal standard deduction or the federal exemption amount due to indexing. The difference between the federal amounts and the amounts allowed by the state (which are shown in the table) must be added back to federal taxable income in calculating the state's taxable income. In addition, the exemption amount begins to phase out for adjusted gross income over $60,000 for single filers and $100,000 for married persons filing jointly.

[AA] In addition to the exemption amount, a tax credit of $20 per exemption is allowed.

[BB] In the case of business income derived from a partnership or other passthrough entity, the taxpayer may elect to use a 6.5% tax rate in lieu of the high tax rate of 7%.

[CC] Tennessee has a limited income tax that only applies to interest and dividend income. The first $1,250 of income is exempted from tax.

[DD] The starting point is federal taxable income; however, the state only recognizes 75% of the federal exemption amount (which is the amount shown in the table). Twenty-five percent of the federal exemption amount must be added back to federal taxable income in calculating the state's taxable income.

[EE] The standard deduction phases out for single filers with state income between $0-80,000, and for married persons filing jointly with state income between $0-$90,895.

CORPORATION INCOME TAX

CURRENT LAW

Filing Requirements

Every corporation engaged in business in North Dakota or having sources of income in North Dakota must file a North Dakota corporation income tax return. Most returns are due on the 15th day of the fourth month following the close of the tax year. Returns filed by cooperatives are due on the 15th day of the ninth month following the close of the tax year. Returns of tax-exempt organizations reporting unrelated business taxable income are due on the 15th day of the fifth month after the close of the tax year. Payment is made with the return.

A corporation is required to pay estimated tax on a quarterly basis if:
- the estimated tax due exceeds $5,000, and
- the previous year's total tax liability exceeded $5,000.

Starting Point for Calculating Tax

The starting point for calculation of corporation income tax is federal taxable income. North Dakota income tax law is perpetually federalized for this starting point.

Apportionable Income

A corporation's apportionable income is determined by adjusting the corporation's federal taxable income.

Additions to federal taxable income include:
- All income, franchise or privilege taxes measured by income which were deducted on the federal return.
- North Dakota depreciation adjustments.
- Interest on state and local obligations (excluding North Dakota).
- Special deductions and net operating loss deductions taken on the federal return.
- Federal safe harbor lease adjustments.
- The amount of the U.S. production activities income deducted in calculating federal taxable income.
- The amount of extraterritorial income excluded from federal taxable income (for tax years 2005 and 2006 only).

Subtractions from federal taxable income include:
- State income tax refunds.
- Interest from U.S. obligations.
- North Dakota depreciation adjustments.
- Nonbusiness income (net of related expenses) from sources outside North Dakota.
- Federal safe harbor lease adjustments.

North Dakota Taxable Income

North Dakota taxable income is that portion of a corporation's apportionable income which is derived from, or attributable to, sources within North Dakota.

A corporation whose business activity is conducted solely within North Dakota is a nonapportioning corporation. North Dakota taxable income is the entire apportionable income reduced by any net operating loss carryforward attributable to North Dakota sources.

Parent and subsidiary corporations, which operate totally within North Dakota and file a federal consolidated tax return, must file a state consolidated corporation income tax return using the combined report method.

A corporation whose activity is conducted both within and without North Dakota is an apportioning corporation. North Dakota taxable income is computed by multiplying the apportionable income by an apportionment factor. This amount is reduced by any net operating loss carryforward attributable to North Dakota sources, by any applicable income exemptions and by any recapture of previously disallowed federal alternative minimum tax. The apportionment formula includes property, payroll and sales factors, and is calculated as follows:

$$\left(\frac{\text{ND Property}}{\text{Total Property}} + \frac{\text{ND Payroll}}{\text{Total Payroll}} + \frac{\text{ND Sales}}{\text{Total Sales}}\right) \div 3$$

Unitary Report and Water's Edge Election. A unitary combined report is required when two or more corporations are conducting a unitary business. A unitary business is one in which the activities of two or more affiliated corporations depend upon, contribute to, or are integrated with each other. The combined report includes the total apportionable income of all members of the unitary group. To be included in a combined report, an affiliated corporation must have more than 50% of its voting stock owned directly or indirectly by a common parent, which is also a member of the group.

North Dakota applies the unitary concept on a worldwide basis. In other words, total apportionable income includes income of all affiliated companies of the unitary group, whether those companies are incorporated within or outside the United States. A corporation may elect to apportion its income using the water's edge approach. Under such an election, the corporation must comply with the following:

1. The election must be made on the return as originally filed.
2. Federal taxes may not be deducted.
3. The water's edge election is binding for five consecutive years.
4. A domestic disclosure spreadsheet must be filed in the election year and every third year thereafter provided that property, payroll or sales in foreign countries exceed $10 million and total assets exceed $250 million.
5. The water's edge report must include the income and apportionment factors of the water's edge group, 30% of foreign dividends, and 30% of net book income from 80/20 corporations. An 80/20 corporation refers to an affiliated corporation incorporated in the U.S., but having less than 20% of its property and payroll assigned to U.S. locations.

Rate Table

Effective for tax years beginning after December 31, 2003, North Dakota corporation income tax is determined by applying the following rates to North Dakota income:

TAXABLE INCOME:	
Up to $3,000	2.6%
$ 3,000 to $ 8,000	4.1%
$ 8,000 to $ 20,000	5.6%
$ 20,000 to $ 30,000	6.4%
Over $30,000	7.0%

Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income.

Effective for taxable years beginning after December 31, 2006, the rate applied to North Dakota income over $30,000 will decrease to 6.5%.

Tax Credits

North Dakota allows corporation income tax credits for:
- A portion of North Dakota wages and salaries, if the corporation is a new industry. A corporation which receives a new or expanding business income tax exemption does not qualify for this credit (see New Business Exemptions below).
- Investment in a North Dakota venture capital corporation.
- Investment in the Small Business Investment Company, a limited partnership established by the State of North Dakota.
- Investment in a certified nonprofit development corporation.
- Investment in a qualified North Dakota seed capital business.
- Investment in a qualified North Dakota agricultural commodity processing facility.
- Research and experimental expenditures incurred within North Dakota.
- Contributions to nonprofit private high schools and nonprofit private colleges in the state.
- Installation of geothermal, solar or wind energy devices.
- A portion of North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.
- Qualified investment in a North Dakota renaissance fund organization.
- Investment in historic property preservation or renovation in a renaissance zone.
- Direct costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel.
- Direct costs incurred by fuel sellers to adapt or add equipment to their facilities to enable the sales of at least 2% biodiesel fuel blends.
- A five cent per gallon credit, for licensed fuel suppliers who blend fuel containing at least 5% biodiesel fuel.

New Business Exemptions

Qualifications. A new or expansion project in a primary sector or tourism business may qualify for an income tax exemption for up to five years. "Primary sector" refers to a business that adds value to a product, process or service that produces wealth in North Dakota. "Tourism" refers to a tourism-related business that is a destination attraction. The exemption is limited to income earned from the qualifying project. The project operator is required to file a state income tax return even though an exemption is granted.

Limitations. A business is not eligible for an exemption if:

- The business received a property tax exemption under tax increment financing;
- There is an outstanding recorded lien for delinquent property, income, sales or use taxes against the project operator or principle officers; or
- The exemption fosters unfair competition or endangers existing business.

Application Procedures. The business must apply to the State Board of Equalization, c/o the Office of State Tax Commissioner.

- The application must be filed during the first year of project operations.
- The application is reviewed by the Department of Commerce, Division of Economic Development and Finance.
- The business must provide notice to competitors as prescribed by the State Board.
- The State Board considers the application and any testimony at a public meeting and then grants or denies the exemption and certifies the results to the State Tax Commissioner.

Business Incentive Agreement. Corporations that receive an income tax exemption must enter into a Business Incentive Agreement with the State Board of Equalization.

Renaissance Zone Exemptions

North Dakota allows these exemptions under the Renaissance Zone Act:

- A five-year business income exemption for purchasing, leasing, or making improvement to real property used in an existing business.
- A five-year investment income exemption for purchasing residential or commercial real property solely for investment purposes.

Distribution of Revenue

All revenue from the corporation income tax is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1919 Session. A tax on corporation income was first enacted. Among the deductions allowed was a deduction for taxes paid to federal, state, local or foreign governments.

1923 Session. The state's corporation income tax was revised and reenacted with a 3% flat rate.

1937 Session. The corporation income tax was changed to a graduated rate structure. For tax years ending December 31, 1936 and after, corporation income tax rates were:

TAXABLE INCOME:	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.0%
$ 8,000 to $ 15,000	5.0%
Over $15,000	6.0%

1978 Initiated Measure. The initiated measure added a tax bracket for taxable income over $25,000. For tax years after December 31, 1977, corporation income tax rates were:

TAXABLE INCOME	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.0%
$ 8,000 to $ 15,000	5.0%
$ 15,000 to $ 25,000	6.0%
Over $25,000	8.5%

1979 Session. A tax credit for contributions to nonprofit private high schools was created. The 1% business privilege tax on business income paid by individuals, estates, trusts, partnerships and corporations was repealed.

1981 Session. A tax credit for the installation of a geothermal energy device was created. A deduction was created for interest on bonds issued by a regional railway authority in North Dakota. For tax years beginning after December 31, 1980, corporation income tax rates were reduced to:

TAXABLE INCOME:	
Up to $3,000	2.0%
$ 3,000 to $ 8,000	3.0%
$ 8,000 to $ 20,000	4.0%
$ 20,000 to $ 30,000	5.0%
$ 30,000 to $ 50,000	6.0%
Over $50,000	7.0%

1983 Session. Declaration of estimated tax requirements was adopted for corporations with estimated taxes of more than $5,000. Corporation income tax rates for tax years beginning after December 31, 1982, were increased to the following:

TAXABLE INCOME:	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.5%
$ 8,000 to $ 20,000	6.0%
$ 20,000 to $ 30,000	7.5%
$ 30,000 to $ 50,000	9.0%
Over $50,000	10.5%

1985 Session. A tax credit was provided for investments made in a North Dakota venture capital corporation.

1987 Session. Corporations were allowed to choose the water's edge method of apportioning income for tax years beginning after December 31, 1988. An alternative minimum tax was enacted. A deduction was added for dividends from the Myron G. Nelson Fund, Inc., a state established venture capital corporation. Credits were created for research expenditures, for investments in the Myron G. Nelson Fund, Inc., and for North Dakota wages paid to developmentally disabled or chronically mentally ill employees. Income tax returns included a provision for optional contributions to the nongame wildlife fund. Limitations were removed on the type of business qualifying for the new business exemption. The exemption had been limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

1989 Session. A credit was added for investment in a nonprofit development corporation. The alternative minimum tax (AMT) rate was changed from 5% to 6%. A credit was created for the amount the alternative minimum tax exceeds regular liability in past years. The water's edge election was made binding for five years instead of ten. The spreadsheet requirement was reduced from yearly to the first year and every third year thereafter. The centennial tree trust fund was added as an optional contribution.

1991 Session. The AMT was repealed and the remaining AMT credit was allowed to be carried over for up to four years. A deduction was added for certain federal AMT disallowed on previous state returns. Requirements that corporation income tax returns provide for optional contributions to funds for wildlife and centennial trees were repealed. The legislature approved the Taxpayer Bill of Rights. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-added primary sector and tourism businesses.

1993 Session. Limited liability companies (LLC), a new form of business entity, were legalized. The requirement to file informational returns was removed for tax exempt organizations and insurance companies subject to the insurance premium tax (see page 96). Unrelated taxable income must be reported. A credit was created for alternative fuel equipment installed on motor vehicles.

1994 Special Session. Project size limitations were removed as qualifications for the new or expanding business tax exemption, allowing large projects to qualify.

1995 Session. The Myron G. Nelson Fund, Inc. was changed to the North Dakota Small Business Investment Company, a limited partnership. The tax credit provisions did not change. Corporations with parent and subsidiaries operating totally in the state were required to file a state consolidated corporation income tax return using the combined report method for tax years beginning after December 31, 1994.

1997 Session. The law was changed for a single member LLC. A single member LLC will be treated as a corporation for North Dakota purposes if treated as a corporation for federal income tax purposes; otherwise it must be disregarded as an entity separate from its owner. If any LLC meets the definition of a financial institution, as defined in N.D.C.C. ch. 57-35, it must file as a financial institution. A corporation may elect to apply an overpayment of estimated tax to a specific estimated installment other than the first quarter's installment. A number of changes were made affecting the interest calculation provisions.

1999 Session. The interest rate on refunds was increased from 10% per year to 1% per month (or a fraction of a month), equalizing the rate of interest on a refund to the rate of interest charged on late payments or additional tax due. Cities were provided authority to create "renaissance zones." Various income exemptions and tax credits are allowed for investments in an approved renaissance zone.

2001 Session. For tax-exempt organizations, the due date to file returns reporting unrelated business taxable income was changed to the 15th day of the fifth month following the tax year end. A change was made to extend the time period to assess tax. When a 25% understatement of taxable income or income tax exists, an extension may be entered into before the six-year assessment statute expires.

The tax credit for geothermal, solar or wind energy devices was changed. Property leased in North Dakota became eligible. For devices installed after December 31, 2001, the credit is 3% of acquisition and installation cost, in each of the first 5 tax years. Passthrough entities' owners claim the entities' credit in proportion to the ownership interest. The credit is available for devices installed before January 1, 2011

For tax assessments made after December 31, 2000, a regulated investment company is allowed a deduction for dividends paid to the shareholders or to a fund of a regulated investment company.

For renaissance zones, a change was made to allow an exemption for income from property owned or leased for either a business or investment purpose. The exemption was also extended to qualifying rehabilitations of residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed $250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

2003 Session. The deduction for federal income taxes paid was eliminated for tax years beginning after December 31, 2003. In conjunction, corporation income tax rates became:

TAXABLE INCOME:	
Up to $3,000	2.6%
$ 3,000 to $ 8,000	4.1%
$ 8,000 to $ 20,000	5.6%
$ 20,000 to $ 30,000	6.4%
Over $30,000	7.0%

Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income.

North Dakota net operating losses in tax years beginning after December 31, 2002 cannot be carried back to a previous tax year. Such losses can only be carried forward.

Based on a North Dakota Supreme Court ruling, the North Dakota domestic dividend exclusion was repealed, effective for tax years beginning after December 31, 1999.

A credit was created for costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel.

2005 Session. Two new addition adjustments to federal taxable income were authorized effective for taxable years beginning after December 31, 2004:

- U.S. production activities income deducted to compute federal taxable income.
- Extraterritorial income excluded from the computation of federal taxable income (for tax years 2005 and 2006 only).

For taxable years beginning after December 31, 2006, the top tax rate (for taxable income over $30,000) will be reduced to 6.5%.

The credit for installation of geothermal, solar or wind energy devices was modified. If a corporation eligible for the credit is a member of a group of corporations filing a consolidated North Dakota return using the combined reporting method, the credit may be offset against the consolidated tax liability (as opposed to applying it against just the tax liability of the corporation eligible for the credit). In addition, any taxpayer eligible for the credit may carry an unused credit forward for five tax years.

Eligibility for the seed capital and agricultural commodity processing facility investment tax credits was expanded to include regular corporations, trusts and passthrough entities (such as S corporations and partnerships). In the case of a passthrough entity, the tax credit must be passed through to the entity's owners based on their respective ownership interests. The tax credit must be claimed first in the year in which the business received the payment. Monies being held in escrow do not constitute an eligible investment.

The amount of investment eligible for the seed capital investment tax credit was limited to a lifetime limit of $500,000 for investments made after December 31, 2004, in qualified businesses certified after December 31, 2004. For investments made after December 31, 2004, the amount of tax credits allowed for all investments in all qualified businesses was limited to $2.5 million per calendar year.

The amount of credit for an investment in an agricultural commodity processing facility was limited to $50,000 in a tax year. The total credit a taxpayer is eligible for in all tax years was limited to $250,000. The number of tax years over which a taxpayer may carry forward an unused tax credit was reduced from fifteen to five years.

The credits for investment in a North Dakota venture capital corporation and in the North Dakota Small Business Investment Company were repealed, effective August 1, 2007.

A new provision relating to refund claims for taxes (other than property taxes) affects tax returns filed or tax payments made after December 31, 2004. After this date, claims for credit or refund based on a claim that the tax or the law is unconstitutional must be made within 180 days of the due date of the return or payment of the tax, whichever occurs first.

Two new credits related to biodiesel fuel were authorized:

- Fuel sellers who adapt or add equipment to their facilities to enable the sales of at least 2% biodiesel fuel blends may claim a credit equal to 10% per year for 5 years of the seller's direct costs incurred for the adaption or installation of the equipment. The credit is first allowed in the year the facility begins selling the fuel. Any credit in excess of the current tax year's liability may be carried forward for five taxable years. The cumulative credit for all tax years is limited to $50,000.
- Licensed fuel suppliers who blend fuel containing at least 5% biodiesel fuel are entitled to a credit of 5 cents per gallon of blended fuel. Any credit in excess of the current year's liability may be carried forward for five taxable years.

STATE COMPARISONS

Please note that a comparison of corporation income tax obligations would need to consider, in addition to tax rates, complex variables such as different state definitions of taxable income and circumstances of each corporation.

Corporation Income Tax Collections

Fiscal Year	Net Collections
1996	49,047,417
1997	50,300,520
1998	65,543,025
1999	57,877,194
2000	47,528,001
2001	51,606,853
2002	41,374,297
2003	46,027,577
2004	40,257,083
2005	62,669,889
2006	111,789,587
2007 est.	68,530,000

SOURCE: North Dakota Office of State Tax Commissioner

Comparison of State Corporation Income Tax Rates
For Tax Year 2006 - As of January 1, 2006

A comparison of tax **obligations** would also need to consider complex variables such as different state definitions of taxable income and circumstances of each corporation.

State	Tax Rate - Corporations Lowest	Tax Rate - Corporations Highest	Income Brackets Lowest (Up To)	Income Brackets Highest (Over)	Tax Rate Financial Inst. Lowest	Tax Rate Financial Inst. Highest	Is Federal Income Tax Deductible?
Alabama	6.5%		Flat Rate		6.5%		Yes
Alaska	1.0%	9.4%	$10,000	$90,000	1.0%	9.4%	No
* Arizona	6.968%		Flat Rate		6.968%		No
Arkansas	1.0%	6.5%	$3,000	$100,000	1.0%	6.5%	No
* California	8.84%		Flat Rate		10.84%		No
Colorado	4.63%		Flat Rate		4.63%		No
* Connecticut	7.5%		Flat Rate		7.5%		No
* Delaware	8.7%		Flat Rate		1.7%	8.7%	No
* Florida	5.5%		Flat Rate		5.5%		No
Georgia	6.0%		Flat Rate		6.0%		No
* Hawaii	4.4%	6.4%	$25,000	$100,000	7.92%		No
* Idaho	7.6%		Flat Rate		7.6%		No
* Illinois	7.3%		Flat Rate		7.3%		No
Indiana	8.5%		Flat Rate		8.5%		No
* Iowa	6.0%	12.0%	$25,000	$250,000	5.0%		Yes-50%
* Kansas	4.0%		Flat Rate		2.25%		No
* Kentucky	4.0%	7.0%	$50,000	$100,000			No
* Louisiana	4.0%	8.0%	$25,000	$200,000			Yes
* Maine	3.5%	8.93%	$25,000	$250,000	1.0%		No
Maryland	7.0%		Flat Rate		7.0%		No
* Massachusetts	9.5%		Flat Rate		10.5%		No
* Michigan	1.9%		Flat Rate				No
* Minnesota	9.8%		Flat Rate		9.8%		No
Mississippi	3.0%	5.0%	$5,000	$10,000	3.0%	5.0%	No
* Missouri	6.25%		Flat Rate		7.0%		Yes-50%
* Montana	6.75%		Flat Rate		6.75%		No
* Nebraska	5.58%	7.81%	$50,000				No
Nevada	no tax						
* New Hampshire	8.5%		Flat Rate		8.5%		No
* New Jersey	9.0%		Flat Rate		9.0%		No
New Mexico	4.8%	7.6%	$500,000	$1,000,000	4.8%	7.6%	No
* New York	7.5%		Flat Rate		7.5%		No
* North Carolina	6.9%		Flat Rate		6.9%		No
*** NORTH DAKOTA**	**2.6%**	**7.0%**	**$3,000**	**$30,000**	**7.0%**		**No**
* Ohio	5.1%	8.5%	$50,000				No
Oklahoma	6.0%		Flat Rate		6.0%		No
* Oregon	6.6%		Flat Rate		6.6%		No
* Pennsylvania	9.99%		Flat Rate				No
* Rhode Island	9.0%		Flat Rate		9.0%		No
* South Carolina	5.0%		Flat Rate		4.5%		No
* South Dakota	no tax				0.25% - 6.0%		No
Tennessee	6.5%		Flat Rate		6.5%		No
* Texas	4.5%		Flat Rate				No
* Utah	5.0%		Flat Rate		5.0%		No
* Vermont	7.0%	8.9%	$10,000	$250,000			No
* Virginia	6.0%		Flat Rate		6.0%		No
Washington	no tax						
West Virginia	9.0%		Flat Rate		9.0%		No
Wisconsin	7.9%		Flat Rate		7.9%		No
Wyoming	no tax						
* District of Columbia	9.975%		Flat Rate		9.975%		No

* See footnotes on following page.

Nevada, Washington and Wyoming do not have state corporate income taxes.

Comparison of State Corporation Income Tax Rates
Footnotes

Arizona Minimum tax, $50.

California Minimum Tax is $800. Tax rate on S-corporations is 1.5% (3.5% for banks).

Connecticut Or 3.1 mills per dollar of capital stock and surplus (maximum tax $1 million) or $250. A 25% surcharge applies to corporations with liability greater than $250.

Delaware For banks, the marginal rate decreases over 4 brackets ranging from $20 to $650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.

District of Columbia Minimum tax, $100. Includes surtax.

Florida Or alternative minimum tax, 3.3%. An exemption of $5,000 is allowed.

Hawaii Capital gains are taxed at 4%. There also is an alternative tax of 0.5% of gross annual sales.

Idaho Minimum tax, $20. Additional $10 tax on each return.

Illinois Includes a 2.5% personal property replacement tax.

Iowa Allows deduction of 50% of federal income taxes.

Kansas Plus 3.35% surtax is imposed on taxable income in excess of $50,000. (2.125% for banks on taxable income in excess of $25,000).

Kentucky Minimum tax of $175. Or, the alternative minimum tax equal to 0.095% of gross sales in the state or 0.75% of state gross profits. Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Louisiana Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Maine Or the Maine alternative minimum tax.

Massachusetts Rate includes a 14% surtax, as does the following: an additional tax of $7.00 per $1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of $456.00.

Michigan Michigan imposes a single business tax (sometimes described as a business activity tax or value added tax) of 1.9% of the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalty paid and other items.

Minnesota An additional tax equal to 5.8% on any alternative minimum taxable income over the base tax.

Missouri 50% of federal income tax is deductible.

Montana Corporations electing to use water's edge combination are taxed at 7%. Minimum tax, $50.

Nebraska Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

New Hampshire Plus a .50% tax on the enterprise base (total compensation, interest and dividends paid). Business profits tax imposed on both corporations and unincorporated associations.

New Jersey The rate reported in the table is the corporation business franchise tax rate. The minimum tax is $500. An Alternative Minimum Assessment based on Gross Receipts applies if greater than corporate franchise tax. Corporations not subject to the franchise tax are subject to a 7.25% income tax. Banking and financial corporations are subject to the franchise tax. Corporations with net income under $100,000 are taxed at 6.5%. The tax on S-corporations is being phased out through 2007. The tax rate on a New Jersey S-corporation that has entire net income not subject to federal corporate income tax in excess of $100,000 will remain at 1.33% for privilege periods ending on or before June 30, 2006. The rate will be 0.67% for privilege periods ending on or after July 1, 2006, but on or before June 30, 2007; and there will be no tax imposed for privilege periods ending on or after July 1, 2007. The tax on S-corporations with entire net income not subject to federal corporate income tax of $100,000 or less is eliminated for privilege periods ending on or after July 1, 2007.

New York Or 1.78 mills per dollar of capital (up to $350,000); or a 2.5% alternative minimum tax; or a minimum tax of $10,000 to $100 depending on payroll size; if any of these is greater than the tax computed on net income. Small corporations with income under $290,000 are subject to lower rates of tax on net income. An additional tax of 0.9 mills per dollar of subsidiary capital is imposed on corporations. For banks the alternative bases of tax are 3% of alternative net income; or up to 1/50th mill of taxable assets; or a minimum tax of $250.

North Carolina Financial institutions are also subject to a tax equal to $30 per one million in assets.

North Dakota Minimum tax for financial institutions is $50 in North Dakota; they may deduct federal income tax. Corporations electing the water's edge method pay an additional 3.5% surtax on North Dakota taxable income. For tax years beginning after December 31, 2006, the top rate drops to 6.5%.

Ohio Rates shown are for the Franchise tax, which is being phased out through 2010 and replaced with the CAT. Current rates apply to 80% of the liability, or 80% of 4 mills time the value of the taxpayer's issued and outstanding share of stock with a maximum payment of $150,000; or $50 to $1,000 minimum tax, depending on worldwide gross receipts. The Commercial Activity Tax (CAT) equals $150 for gross receipts between $150,000 and $1 million, plus 0.26% of gross receipts over $1 million. The CAT applies to 23% of receipts through March 31, and 40% for the remainder of the year. Banks will pay the Franchise tax. An additional litter tax is imposed equal to 0.11% on the first $50,000 of taxable income, 0.22% on income over $50,000; or 0.14 mills on net worth.

Oregon Minimum tax, $10.

Pennsylvania Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Rhode Island Minimum tax is $250. For banks, the alternative tax is $2.50 per $10,000 of capital stock ($100 minimum).

South Carolina Savings and Loans are taxed at a 6% rate.

South Dakota Minimum tax for banks, $200 per location.

Texas Imposes a franchise tax of 4.5% of earned surplus or 2.5% of net worth.

Utah Minimum tax, $100.

Vermont Tax rate scheduled to decrease for tax years beginning after 2006. The top rate will decrease to 8.5% for income over $25,000, with only three income brackets. Minimum tax of $250. Rates listed include the corporate tax rate applied to financial institutions or excess taxes based on income.

Virginia State and national banks subject to the state's franchise tax on net capital is exempt from the income tax.

SOURCE: Federation of Tax Administrators.

SALES AND USE TAXES

CURRENT LAW

Sales, Use, and Gross Receipts Tax

Imposition and Rates

Sales Tax. North Dakota imposes a sales tax on the gross receipts of retailers. The tax is paid by the purchaser and collected by the retailer.

The sales tax is levied as follows:

- 2% rate on the gross receipts from retail sales of natural gas.
- 3% rate on the gross receipts from retail sales of new mobile homes.
- 3% sales tax surcharge on each motor vehicle rental contract for a period of fewer than thirty (30) days, provided the gross vehicle weight of the motor vehicle is ten thousand pounds or less.
- 5% general rate on the gross receipts from retail sales of tangible personal property, communication services, magazines and other periodicals sold over the counter, cigarettes and tobacco products, and admission tickets for recreation activities; from the rental of hotel, motel, and bed and breakfast accommodations for periods of less than 30 consecutive days; from the leasing of tangible personal property; and from the rental of motor vehicles for periods less than 30 days.

Use Tax. The purchase price of tangible personal property purchased outside of the state for storage, use or consumption within the state is subject to a use tax. In addition, tangible personal property not originally purchased for use in North Dakota is subject to a use tax based upon its fair market value at the time it was brought into the state. Credits are allowed for sales and use taxes paid to other states.

The use tax is collected by any retailer who maintains in this state, directly or indirectly, an office, distribution house, sales house, warehouse, or other place of business or has a sales representative operating in this state either permanently or temporarily.

Use tax is paid by contractors installing materials in real property, including real property owned by government and tax-exempt entities. North Dakota use tax is also paid by contractors buying materials in North Dakota and installing them in other states, except Montana.

Use tax rates are the same as the sales tax rates listed.

Local Sales and Use Taxes. Cities or counties that have adopted home rule charters may levy sales and use taxes. North Dakota home rule statutes require the North Dakota Office of State Tax Commissioner to administer the local taxes. The state pays the revenue collected to the local governments on a monthly basis. Cities and counties with a local tax during the 2003-2005 biennium are listed on page 39.

Farm Machinery Gross Receipts Tax. North Dakota imposes a 3% gross receipts tax on retail sales of new farm machinery and new irrigation equipment used exclusively for agricultural purposes. A person that receives new farm machinery or new irrigation equipment for storage use, or consumption in North Dakota is also subject to the gross receipts tax. Credits are allowed for similar taxes paid to other states. Used farm machinery and used irrigation equipment used exclusively for agricultural purposes are exempt from sales, use and gross receipts taxes. Farm machinery is not subject to sales tax.

Alcoholic Beverage Gross Receipts Tax. North Dakota imposes a 7% gross receipts tax on retail sales of alcoholic beverages sold for consumption either on or off the premises. A person that receives alcoholic beverages for storage use, or consumption in North Dakota is also subject to the gross receipts tax. Credits are allowed for similar taxes paid to other states. Alcholic beverages are not subject to sales tax.

Lodging Gross Receipts Tax. North Dakota imposes a 1% gross receipts tax through June 30, 2007, on the rental of hotel and motel accommodations for periods of less than 30 consecutive days. The gross receipts tax is in addition to the state sales tax and does not apply to bed and breakfast accommodations.

Exemptions

Receipts from the sale of tangible personal property for the purpose of "resale" or "processing" by the purchaser are not subject to the sales, use, or gross receipts tax. In addition, receipts from the sale of the following items are exempt from sales, use, and gross receipts tax:

- Food and food ingredients for human consumption except for prepared food for immediate consumption, candy, and soft drinks.
- Food used as samples in grocery stores.
- Commercial fertilizers, fungicides, herbicides, adjuvants, feeds, and seeds used for agricultural purposes.
- Agricultural by-products used to produce steam or electricity.
- Interstate communications (telephone calls, etc.).
- Hotel or motel rooms rented by or for same individual for 30 or more consecutive days.
- Machinery and equipment that a new or expanding plant uses primarily for manufacturing, processing or recycling (the company must get pre-approval or pay the tax and apply for a refund).
- Materials used to construct an agricultural processing plant (the company must get pre-approval or pay the tax and apply for a refund).
- Computer and telecommunications equipment that is an integral part of a new or expanding primary sector business other than a manufacturer or recycler (the company must be certified as a primary sector business by the Department of Commerce and get pre-approval for the exemption or pay the tax and apply for a refund).
- Production equipment in a large coal-burning power plant and tangible personal property used in construction of the plant.
- Production equipment in a wind-powered electrical generating facility constructed before January 1, 2011 and with a nameplate capacity of at least one hundred kilowatts and other tangible personal property used in construction of the facility (the plant operator must get pre-approval or pay the tax and apply for a refund).
- Used mobile homes.
- Used farm machinery, used irrigation equipment, and new and used farm machinery repair parts.
- Newspapers.
- Newsprint and printer's ink sold to publishers.
- Magazine subscriptions.
- Electricity.
- Water.
- Steam used to process agricultural products.
- Flight simulators or mechanical equipment used with a flight simulator.
- Money.
- Lottery tickets.
- Admissions to, or sales made at, an annual church supper or bazaar held in a publicly-owned building.
- Admission tickets to state or local fairs.
- Performances of community non-profit music or dramatic arts organizations (if proceeds used for charitable purposes).
- Film rentals if admissions to view the film are subject to sales tax.
- Prescription drugs.
- Artificial medical devices.
- Mobility-enhancing equipment for use by physically disabled persons.
- Oxygen and anesthesia gases for medical purposes.
- Diabetic and bladder dysfunction supplies.
- Ostomy devices and supplies.
- Items sold to federal chartered credit unions.
- Items subject to other taxes such as coal (if not used for heating), beneficiated coal, aircraft, motor vehicles, gasoline, and combustible fuels.
- Items sold to private non-profit schools.
- Bibles, hymnals, textbooks, prayerbooks sold to nonprofit religious organizations.
- Items sold to governmental agencies, including public schools.
- Items sold to residents of Montana if the total sales price exceeds $50.
- Items sold to residents of Canada if purchase is over $25 (must apply for a refund of tax paid).
- Items sold to a Commerce Authority for use in the Authority's infrastructure.
- Items sold on an Indian reservation to an enrolled Native American or to the tribal government.
- Goods sold to a hospital or skilled nursing, basic care or intermediate care facility, assisted living facility, or emergency medical service provider.
- Items sold at an auction unless the auctioneer is selling retail inventory or consigned goods owned by an undisclosed principal.
- Items sold to a charitable organization to be awarded as a prize in a raffle if the winner is subject to tax upon receipt.
- CO_2 used for enhanced oil recovery.
- Equipment used to sell biodiesel fuel.
- Hydrogen used to power internal combustion engines or fuel cells.
- Equipment used to produce and store hydrogen.
- Precious metal bullion with purity not less than .999.

Administration

Every business making taxable retail sales and every business accruing a use tax liability must obtain a North Dakota sales and use tax permit from the North Dakota Office of State Tax Commissioner. A consolidated form is available to register for a sales and use tax permit, income tax withholding, unemployment insurance and workers compensation.

Most businesses pay sales, use, and gross receipts taxes on a quarterly basis. However, businesses reporting taxable sales and purchases of $333,000 or more during the previous calendar year must file monthly returns. Businesses required to file and pay monthly returns are allowed to deduct and retain a compensation allowance of 1½% of the tax due, up to a maximum of $85 per month if the returns are filed on time.

Whether the tax is paid monthly or quarterly, the tax payment and a return reporting all sales and purchases are due the last day of the month following the end of the reporting period. In odd-numbered years, monthly returns for May are due June 22.

Distribution of Revenue

Revenue collected from the sales, use, farm machinery gross receipts, alcoholic beverage gross receipts, and motor vehicle excise taxes is divided between the State General Fund and the State Aid Distribution Fund. The formula to determine the State Aid Distribution Fund portion is designed to keep the amount constant regardless of tax rate changes. The formula is:

40% (1% ÷ by general sales tax rate) (net collections)

This formula to determine the State Aid Distribution Fund currently yields 8% of the net collections. The distribution of the State Aid Distribution Fund portion is 53.7% to revenue sharing for counties and 46.3% for cities.

Motor Vehicle Excise Tax

Imposition and Rates

The purchase price of any motor vehicle purchased or acquired, either within or outside of North Dakota, for use on the streets or highways of this state is subject to a motor vehicle excise tax if the vehicle is required to be registered in North Dakota.

The motor vehicle excise tax is 5% of the purchase price (the sale price less any trade-in amount). If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value. When a motor vehicle weighing less than ten thousand pounds is leased for at least one year, the motor vehicle excise tax is 5% of the lease consideration. All other leased vehicles are taxed at 5% of the purchase price. North Dakota allows credit for any excise tax paid on a motor vehicle in another state if that state allows a reciprocal credit.

The motor vehicle excise tax is in addition to motor vehicle registration fees for license plates. The registration fees are paid annually to the Department of Transportation.

Exemptions

A motor vehicle is exempt from the motor vehicle excise tax if the vehicle is:

- A gift between a husband and wife, parent and child or brother and sister.
- Inherited.
- A motor carrier vehicle.
- Purchased for resale by a licensed dealer.
- Purchased by a disabled veteran.
- Purchased or leased by the State of North Dakota or a political subdivision of the state.
- A bus purchased by a nonprofit senior citizens' or handicapped persons' organization.
- Specially equipped for a disabled person.
- Owned by an individual and transferred to a partnership or corporation.
- Transferred from a partnership to one of the partners when the partnership dissolves.
- Acquired by a private nonprofit school for the transportation of students.
- Purchased by a charitable organization to be awarded as a prize in a raffle and the vehicle will be subject to tax when requested.
- Transferred between joint tenants in whose names the vehicle was previously titled if the vehicle is transferred without monetary considerations.
- Owned by a person who has a change of name due to marriage, adoption, or court order.
- Transferred without consideration to or from a person within 30 days before the person enters into or is discharged from the armed services of the United States or while the person is serving in the armed forces of the United States.
- Subject to a lien change but only if the registered owner has not changed.
- Brought into North Dakota by a nonresident moving into the state and establishing residence in the state, and if the vehicle was not expressly purchased for use within North Dakota.
- Manufactured by persons for their own use.

- Transferred from a corporation to one of the stockholders when a corporation is dissolved.
- Acquired by a nonprofit county or local historical society that is exempt from federal income tax.
- Transferred from a revocable living trust to the spouse, child, or sibling of the trustor.

Administration

The motor vehicle excise tax is collected by the Department of Transportation.

Distribution of Revenue

Motor vehicle excise tax revenue is credited to the general fund.

Music And Dramatico-Musical Composition Performing Rights Tax

A 5% tax is levied on the gross receipts from all sales, licenses and other dispositions of performing rights in music or dramatico-musical compositions. The tax is administered by the North Dakota Office of State Tax Commissioner and revenue from the tax is placed in the State General Fund.

Provider Assessment for Intermediate Care

Beginning July 1, 2003, a quarterly assessment is billed to each licensed North Dakota intermediate care facility for the mentally retarded (ICFMR). The assessment is charged for each licensed bed at the facility on the first day of each calendar quarter and is payable by the last day of each calendar quarter. The assessment amount, which is effective each July 1, is calculated by the Department of Human Services and may not be greater than the following:

[1½% times aggregate annual gross revenues of all ICFMR as of December 31] ÷
Number of licensed beds as of December 31

The Provider Assessment is administered by the Office of State Tax Commissioner and is deposited in the Provider Assessment Fund. The quarterly assessment rate as of July 1, 2005 was $1,225 for each licensed bed.

City Lodging Restaurant and Motor Vehicle Rental Taxes

Imposition and Rates

The governing body of any city may, by ordinance, impose a city tax, not to exceed 2%, upon the receipts from leasing or renting hotel and motel accommodations. Revenue from the tax must be deposited in a city visitors promotion fund to be used for tourism promotion. These funds may not be used for capital construction.

A city may impose an additional 1% tax on lodging accommodations and on receipts from restaurant sales of prepared food or beverages. Revenue from this tax must be deposited in the city visitors promotion capital construction fund.

A city may also impose by ordinance a tax, not to exceed 1%, on the gross receipts of retailers on the rental of motor vehicles for fewer than thirty days if the motor vehicle is either delivered to a renter at an airport or delivered to a renter who was picked up at an airport. Revenue from the tax must be deposited in a city visitors promotion fund.

Administration

The North Dakota Office of State Tax Commissioner administers and collects all city motor vehicle rental taxes and most city lodging taxes and remits the revenue to the cities on a monthly basis. An administrative fee of 3% of collections is deposited in the State General Fund. Fargo, Grand Forks, Minot and Valley City administer their lodging taxes themselves.

Aircraft Excise Tax

Imposition and Rates

A 5% tax is imposed on the purchase price or market value of aircraft registered in North Dakota. The tax applies whether the aircraft is purchased in North Dakota or outside the state. If the aircraft is purchased for lease or rental, the tax may be imposed on the lease or rental cost of the aircraft.

On aircraft designed exclusively for aerial applications of agricultural fertilizers, pesticides and other agricultural materials, a reduced tax rate of 3% applies to the purchase price or rental cost of the aircraft.

Exemptions

Exemptions to the aircraft excise tax are identical to motor vehicle excise tax exemptions.

Administration

The tax is paid by the purchaser to the Director of Aeronautics when the aircraft is acquired. The purchaser is required to submit the tax with an "aircraft purchaser's certificate" showing a description of the aircraft, the names and addresses of the buyers and sellers, and the full purchase price of the aircraft.

Distribution of Revenue

Revenue from the tax is deposited in the Aeronautics Commission Special Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1935 Session. The first general sales tax in North Dakota was enacted at a rate of 2%. The tax base generally consisted of all sales to consumers of personal property; sales or service of gas, electricity, water and communication; and sales of tickets to places of amusement.

1939 Session. A 2% general use tax was enacted.

1963 Session. The sales and use tax rate increased from 2% to 2¼%.

1965 Referred Measure. The sales tax law was referred and disapproved. Consequently, during the period July 1, 1965 to April 1, 1967 use tax was collected in place of the disapproved sales tax.

1967 Session. New sales and use tax laws were enacted imposing a 3% tax on the same sales transactions that were in effect through the 1963 sales tax law. The legislature enacted a separate 3% motor vehicle excise tax.

1969 Session. Sales tax, use tax, and motor vehicle excise tax rates were increased from 3% to 4%. The increase was used to replace revenue lost to local governments by the repeal of the personal property tax. The sales tax base was broadened to include tobacco products, alcoholic beverages, and oleomargarine.

1973 Session. Food purchased for off premises consumption was exempted from the sales and use tax.

1975 Session. Exemptions were added for sales of artificial devices for handicapped persons, coal, sales to nursing homes and intermediate care facilities, and the sales of certain religious books to nonprofit religious organizations.

1976 Initiated Measure. An initiated measure reduced the sales and use tax rate and the motor vehicle excise tax rate from 4% to 3%, reduced the rate on farm machinery and irrigation equipment from 4% to 2%, and eliminated the tax on electricity.

1977 Session. The legislature authorized home rule cities to contract with the Tax Commissioner to collect city sales and use taxes.

1979 Session. Exemptions to the sales and use tax law were added for sales to hospitals and for ostomy devices and supplies. The exemption for devices to aid the handicapped was expanded.

1981 Session. The sales and use tax on water, used mobile homes, and magazine subscriptions was eliminated. The tax rate on new mobile homes was reduced from 3% to 2%. Cities were permitted to levy a 2% city lodging tax.

1983 Session. The general sales and use tax rate and the motor vehicle excise tax rate were increased from 3% to 4% and the rate for farm machinery, irrigation equipment, and new mobile homes was increased from 2% to 3%. The legislature increased the rate for alcoholic beverages from 3% to 5%. The requirements for remittance of sales and use tax were changed from a quarterly basis to a monthly basis for businesses with taxable sales and purchases greater than $333,000 in the preceding calendar year. Retailers required to file on a monthly basis were given a deduction for administrative expenses. The tax on aircraft sales was changed from the sales tax to a separate aircraft excise tax.

1985 Session. Exemptions for sales of candy, pop and chewing gum were repealed. The legislature authorized home rule counties to contract with the Tax Commissioner to collect county sales and use taxes.

1986 Special Session. The general sales and use tax rate and the motor vehicle excise tax rate was increased from 4% to 5%. The rate on farm machinery repair parts was lowered from 4% to 3%, and the rate on alcoholic beverages was increased from 5% to 6%. No change was made in the 3% rate for farm machinery, irrigation equipment, and new mobile homes.

1987 Session. The legislature increased the general sales and use tax rate and the motor vehicle excise tax rate from 5% to 5½%; the rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes from 3% to 3½%; and the rate on alcoholic beverages from 6% to 6½%.

The legislature added cable TV services to the tax base. [However, in a 1988 referred measure, the cable TV provision was rejected and did not take effect.] Exemptions were created for flight simulators, annual church suppers and bazaars, and adjuvants used with farm chemicals. The legislature required use tax collection by those who solicit sales by mail or other communication systems.

Effective July 1, 1989 a portion of the sales, use, and motor vehicle excise tax collections was allocated to the State Aid Distribution Fund to finance revenue sharing and personal property tax replacement. Cities were granted authority to impose a 1% lodging and restaurant tax.

1989 Session. The general sales and use tax rate and the motor vehicle excise tax rate was increased from 5½% to 6%. The rate on farm machinery, irrigation equipment, farm machinery repair parts, and new mobile homes was increased from 3½% to 4%; and the rate on alcoholic beverages was increased from 6½% to 7%. The legislature created a new rate of 3% on machinery and equipment used in manufacturing or in processing agricultural products.

The tax base was broadened to include bingo cards, coffee, tea, cocoa, and certain bottled water. State chartered credit unions lost the sales tax exemption on items purchased for their own use. The existing exemption for residents of Montana was modified and the exemption for residents of Canada was replaced with a refund provision. An exemption was created for prepared food given away as samples in a grocery store. A portion of sales, use and motor vehicle excise tax collections was allocated to the Capital Construction Fund. The legislature enacted a controlled substances tax.

1989 Referral Election. The general sales and use tax rate and the motor vehicle excise tax rate were reduced from 6% to 5%. The rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes was reduced from 4% to 3%. The rate on alcoholic beverages remained at 7%.

1991 Session. The legislature approved a gradual decrease in the rate on natural gas from 5% to 4% on January 1, 1993; to 3% on January 1, 1994; and to 2% on January 1, 1995. The 3% special rate for manufacturing equipment was changed to an exemption and an exemption was created for production equipment in coal-burning power plants. The legislature approved the Taxpayer Bill of Rights. The destination of aircraft excise tax revenue was changed from the State General Fund to the Aeronautics Commission Special Fund. A waste collection surcharge was imposed.

1993 Session. The Capital Construction Fund was repealed. The exemption for manufacturing machinery and equipment was clarified and expanded to include recycling machinery and equipment. Performances of community non-profit music or dramatic arts organizations held in a public facility were exempted. Items purchased by political subdivisions of another state were made taxable if the other state also taxes the items. A new highway contract privilege tax was established at 5% of the gross contract amount for contracts bid after July 31, 1993. This tax terminated December 31, 1997.

1994 Special Session. Qualifications for the manufacturing exemption include any machinery and equipment used primarily in the manufacturing operation from receipt of raw materials to any process before final transportation from the site. The exemption was expanded to include research and development equipment. A new exemption was created for materials used to construct an agricultural commodity processing facility.

1995 Session. Tire retreading was made taxable. The tax on controlled substances and the waste collection surcharge were repealed.

1997 Session. The legislature approved a sales and use tax of 6¢ per million British thermal units (MBTU) on all sales of coal, except for coal used for heating buildings or used in agricultural processing or sugar beet refining plants, or coal exempted from the tax imposed by N.D.C.C. ch. 57-61.

An exemption was provided to a political subdivision of another state provided a sale to a North Dakota political subdivision is treated as an exempt sale in that state.

1999 Session. The legislature changed the 6¢ per million British thermal units (MBTU) sales tax rate on coal to 75¢ per ton. The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was reduced from 3% to 1½%. The exemption on manufacturing machinery and equipment was expanded to include crude oil refineries for the period February 1, 1999 through July 1, 2002. The legislature provided for corporations and LLCs to post a cash or surety bond in lieu of personal liability of the corporate offices, governors or managers.

2001 Session. The 75 cents per ton sales tax on out-of-state coal was repealed. The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was changed from 1½% to a complete exemption effective July 1, 2002. The exemption for new power plants was expanded to include wind-powered electrical generating facilities and a new exemption was created for computer and telecommunication equipment purchased by new or expanding primary sector businesses other than manufacturers or recyclers. Sales tax was imposed on all vehicle rentals of less than 30 days at a rate of 5% and an additional 3% surcharge was imposed on vehicles weighing less than ten thousand pounds. The rate of penalty applied to delinquent sales tax returns was changed to 5% per month up to a maximum of 25%. The method of imposing motor vehicle excise tax on leased vehicles (cars and light trucks) was changed from paying tax on the lessor's purchase price to paying tax on the total lease consideration.

2003 Session. The legislature increased the tax rate on the rental of hotel, motel, and tourist court accommodations (excluding bed and breakfast facilities) from 5 to 6 percent from July 1, 2003 through June 30, 2007. New exemptions were created for purchases made by Commerce Authorities, purchases of raffle prizes made by charitable organizations when the prize winner is responsible for the tax, and on sales of lottery tickets. The legislature adopted the Streamlined Sales Tax Agreement effective January 1, 2006. The agreement is a cooperative effort between business representatives and state tax and revenue departments to modernize and simplify sales and use taxes across the country. Changes necessary for North Dakota to become compliant with the terms of the agreement were passed with a January 1, 2006 effective date.

2005 Session. The legislature authorized cities to impose a tax up to 1% on the rental of motor vehicles for less than 30 days; the legislature also reduced the sales tax rate on the rental of hotel, motel, and tourist court accommodations (excluding bed and breakfast facilities) from 6% to 5% and imposed through June 30, 2007 a separate 1% gross receipts tax on these accommodations; new exemptions were created for purchases made by assisted living facilities and emergency medical service providers, purchases of CO_2 used for enhanced oil recovery, retail purchases of equipment used to sell biodiesel fuel, retail purchases of hydrogen to power internal combustion engines and fuel cells and equipment used to produce and store hydrogen. Exemptions were also created for the portion of a bundled telecommunications charge that is attributable to nontaxable services, sales of precious metal bullion, and purchases after June 30, 2007 of equipment used in an environmental upgrade of an oil refinery or gas processing plant. The legislature also finalized the changes necessary for North Dakota to be in full compliance with the Streamlined Sales Tax Agreement and moved the effective date of these changes to October 1, 2005. The most significant change was to exempt the sales of farm machinery, farm irrigation equipment, and alcoholic beverages from sales tax and to impose separate gross receipts taxes on these products.

Sales, Use, Gross Receipts, and Motor Vehicle Excise Taxes Collections and Disbursements

TOTAL (Sales, Use, Gross Receipts, and Motor Vehicle Excise Taxes)			
Fiscal Year	All Funds Total	To General Fund	To State Aid Distribution Fund (1)
1996	329,134,892	299,638,706	39,496,187
1997	358,900,354	315,832,932	43,067,422
1998	363,158,056	319,584,864	43,573,192
1999	383,116,174	344,780,052	38,336,122
2000	386,340,221	355,433,005	30,907,266
2001	398,639,882	366,748,691	31,891,191
2002	401,460,878	369,344,008	32,116,870
2003	424,852,990	390,863,587	33,989,403
2004	438,530,207	403,447,790	35,082,417
2005	480,575,627	442,315,674	38,259,953
2006	495,565,709	456,024,312	39,541,397
2007 (est.)	552,233,000	508,170,000	44,063,000

	Sales, Use, and Gross Receipts Taxes			Motor Vehicle Excise Tax		
Fiscal Year	Total Sales and Use	General Fund	State Aid Distribution Fund (1)	Total Motor Veh. Taxes	General Fund	State Aid Distribution Fund (1)
1996	280,319,012	246,680,731	33,638,282	48,815,880	42,957,975	5,857,905
1997	307,553,834	270,647,374	36,906,460	51,346,520	45,185,558	6,160,962
1998	308,636,871	271,606,221	37,030,650	54,521,185	47,978,643	6,542,542
1999	331,027,858	297,895,606	33,132,252	52,088,316	46,884,446	5,203,870
2000	326,261,970	300,161,047	26,100,973	60,078,251	55,271,958	4,806,293
2001	340,114,586	312,905,419	27,209,167	58,525,296	53,843,272	4,682,024
2002	335,504,710	308,664,333	26,840,377	65,956,168	60,679,675	5,276,493
2003	360,819,598	331,954,030	28,865,568	64,036,392	58,912,557	5,123,835
2004	368,415,222	338,942,004	29,473,218	70,114,985	64,505,786	5,609,199
2005	411,553,514	378,815,330	32,738,184	69,022,113	63,500,344	5,521,769
2006	428,906,406	394,697,753	34,208,653	66,659,303	61,326,559	5,332,744
2007 (est.)	488,340,000	449,388,000	38,952,000	63,893,000	58,782,000	5,111,000

(1) The formula to calculate the State Aid Distribution Fund (S.A.D.F.) is: 40% (1% ÷ general sales tax rate) (net collections of sales, use, and motor vehicle excise tax collections). Revenues deposited in the state aid distribution fund are provided as a standing and continuing appropriation.

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

Other Revenue Collections
Local Option Taxes, Music and Composition Tax and Provider Assessment Collections

Fiscal Year	Local Sales & Use [1]	City Lodging [2]	City Restaurant and Lodging	Music and Composition	Provider Assessment [3]
1996	36,534,413	1,004,066	1,644,024	65,222	
1997	45,184,127	1,082,847	1,853,999	77,233	
1998	48,929,646	1,023,667	1,910,488	74,424	
1999	54,058,001	923,479	2,064,346	82,456	
2000	58,711,263	898,527	2,006,046	78,211	
2001	66,961,363	978,713	2,226,938	90,050	
2002	65,368,838	957,524	2,223,865	84,901	
2003	73,666,551	1,034,752	2,439,338	89,902	
2004	68,644,864	958,482	2,393,809	91,113	3,129,863
2005	78,761,154	1,095,595	2,725,275	93,875	3,250,759
2006	87,563,544	1,178,716	2,916,087	46,749	3,781,260

(1) Collections by the North Dakota Office of State Tax Commissioner. Collections include Gross Receipts tax.

(2) Amounts are city lodging taxes collected by the North Dakota Office of State Tax Commissioner. Devils Lake (effective July 1, 2003), Fargo, Grand Forks, Minot (effective January 1, 1998), and Valley City (effective April 1, 2000) administer city lodging taxes themselves and those collections are not included here.

(3) Effective July 1, 2003.

SOURCE: North Dakota Office of State Tax Commissioner.

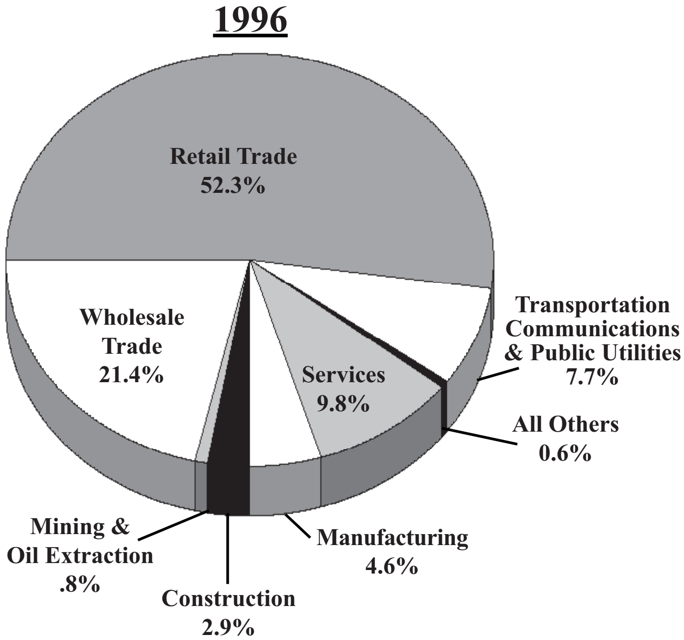
Local Sales, Use, and Gross Receipts Taxes
Net Collections Remitted
2003-2005 Biennium

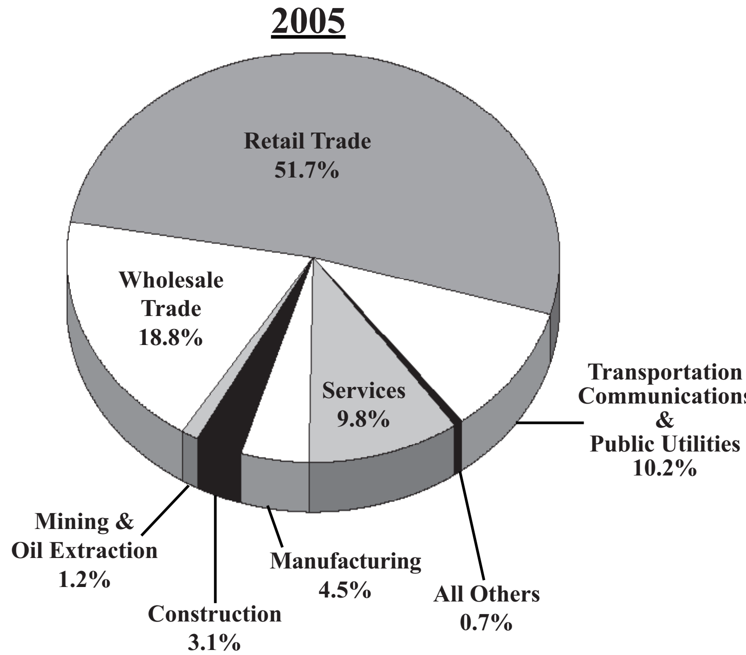
City	Start Date	Tax FY-2004	Tax FY-2005	Biennium Total	City	Start Date	Tax FY-2004	Tax FY-2005	Biennium Total
Aneta	1/05	.00	2,570	2,570	Linton	10/93	63,198	64,031	127,230
Ashley	4/98	37,921	41,945	79,866	Lisbon	7/95	158,376	177,612	335,988
Beach	10/97	79,093	85,751	164,845	Maddock	10/02	31,073	32,878	63,951
Belfield	4/95	72,329	81,360	153,689	Mandan	4/91	1,139,797	1,216,071	2,355,868
Berthold	1/96	20,789	21,574	42,363	Mayville	1/97	236,029	302,925	538,954
Beulah	10/03	133,689	241,828	375,517	McClusky	1/96	17,628	17,855	35,483
Bismarck	4/86	8,505,073	9,184,287	17,689,360	McVille	1/02	14,254	16,052	30,306
Bottineau	10/93	415,676	407,404	823,081	Medora	1/00	263,151	292,723	555,874
Bowman	10/94	162,136	171,519	333,655	Michigan	10/01	17,311	22,665	39,976
Buffalo	1/03	13,201	17,218	30,419	Milnor	10/98	32,020	36,618	70,638
Cando	1/98	60,569	65,346	125,915	Minot	1/98	9,791,161	10,815,985	20,607,146
Carrington	1/94	217,040	239,159	456,199	Mohall	10/92	40,654	45,436	86,090
Carson	10/02	11,783	13,484	25,268	Mott	4/97	56,652	73,624	130,277
Casselton	4/98	92,876	124,285	217,162	Munich	1/99	9,100	8,414	17,514
Cavalier	10/94	203,515	214,308	417,823	Napoleon	10/96	44,974	46,140	91,114
Cooperstown	7/96	82,461	84,920	167,381	Neche	1/04	2,584	12,087	14,671
Crosby	1/93	64,392	70,548	134,941	New England	10/02	31,206	32,220	63,426
Devils Lake	1/97	1,461,412	1,615,545	3,076,957	New Leipzig	1/99	10,135	9,585	19,720
Dickinson	7/90	2,839,554	3,127,625	5,967,179	New Rockford	10/96	83,791	90,967	174,758
Drayton	10/97	46,657	49,520	96,177	Northwood	1/03	52,610	65,606	118,216
Dunseith	1/05	.00	9,905	9,905	Oakes	10/96	181,681	223,836	405,517
Edgeley	1/97	44,253	44,942	89,195	Oxbow	1/02	17,742	18,828	36,569
Edinburg	4/99	14,508	15,006	29,514	Page	4/05	.00	435	435
Elgin	4/00	35,748	31,042	66,790	Park River	1/95	103,152	157,940	261,092
Ellendale	1/95	71,375	81,909	153,284	Pembina	1/93	52,480	76,397	128,877
Enderlin	10/98	71,720	83,560	155,280	Portland	1/97	40,330	43,401	83,731
Fairmount	4/05	.00	7,096	7,096	Powers Lake	4/97	20,570	21,556	42,126
Fargo	7/92	15,562,872	19,980,348	35,543,220	Reeder	1/03	7,720	7,168	14,889
Finley	10/98	45,094	53,786	98,880	Regent	1/97	11,721	12,546	24,267
Fort Ransom	1/00	8,632	7,369	16,001	Richardton	1/97	22,208	25,920	48,128
Garrison	1/96	83,221	90,901	174,123	Rolette	1/03	30,363	31,270	61,633
Grafton	1/91	342,860	355,685	698,545	Rolla	1/94	212,407	254,501	466,907
Grand Forks	4/96	12,715,742	14,152,146	26,867,888	Rugby	1/93	227,492	244,761	472,253
Grenora	10/02	8,669	8,574	17,244	Scranton	4/02	19,672	20,124	39,795
Gwinner	4/05	.00	21,207	21,207	St. John	1/01	8,970	9,557	18,527
Halliday	7/96	8,717	12,513	21,230	Stanley	10/95	84,247	90,979	175,226
Hankinson	10/97	43,025	44,922	87,947	Steele	10/96	57,620	61,294	118,914
Hannaford	10/04	.00	4,927	4,927	Strasburg	4/93	19,249	21,956	41,205
Harvey	10/91	130,652	144,676	275,328	Tioga	1/95	58,912	67,357	126,269
Hatton	4/98	29,890	33,127	63,016	Tower City	10/02	14,712	17,624	32,336
Hazelton	10/00	17,169	18, 915	36,084	Towner	10/98	25,116	26,666	51,782
Hazen	4/95	125,042	144,535	269,577	Turtle Lake	10/00	22,551	24,662	47,213
Hettinger	7/96	119,296	121,005	240,301	Valley City	1/92	741,339	836,772	1,578,111
Hillsboro	10/98	187,337	211,314	398,652	Velva	1/99	41,070	48,940	90,010
Hoople	1/99	9,984	12,128	22,112	Wahpeton	7/91	1,105,774	1,087,163	2,192,937
Hope	1/01	31,576	40,496	72,073	Walhalla	10/97	59,395	67,748	127,143
Jamestown	7/91	3,052,205	3,358,042	6,410,247	Washburn	10/00	77,471	81,927	159,398
Kenmare	1/93	77,888	103,023	180,911	Watford City	10/98	116,355	131,161	247,516
Killdeer	4/95	51,769	59,007	110,776	West Fargo	10/94	1,997,170	2,232,349	4,320,519
Kulm	4/98	17,706	18,041	35,748	Williston	7/91	2,476,990	2,901,892	5,378,883
LaMoure	1/97	60,613	86,629	147,243	Wilton	10/00	28,248	27,281	55,528
Langdon	1/94	161,645	169,201	330,846	Wimbledon	1/05	.00	3,739	3,739
Larimore	1/95	51,416	54,958	106,374	Wishek	4/97	55,726	62,086	117,812
Lidgerwood	10/00	39,699	42,876	82,575					
Counties					**Totals for Cities**		**$ 67,774,649**	**77,896,337**	**145,670,986**

Cass [8] [16]	10/99	78,178	37,643	115,821
Walsh	4/01	156,818	178,115	334,933
Steele	4/05	.00	8,649	8,649
Totals for Counties		**$ 234,996**	**$ 224,407**	**$ 459,403**
Total Local Option Taxes Paid		**$ 68,009,644**	**$ 78,120,745**	**$ 146,130,389**

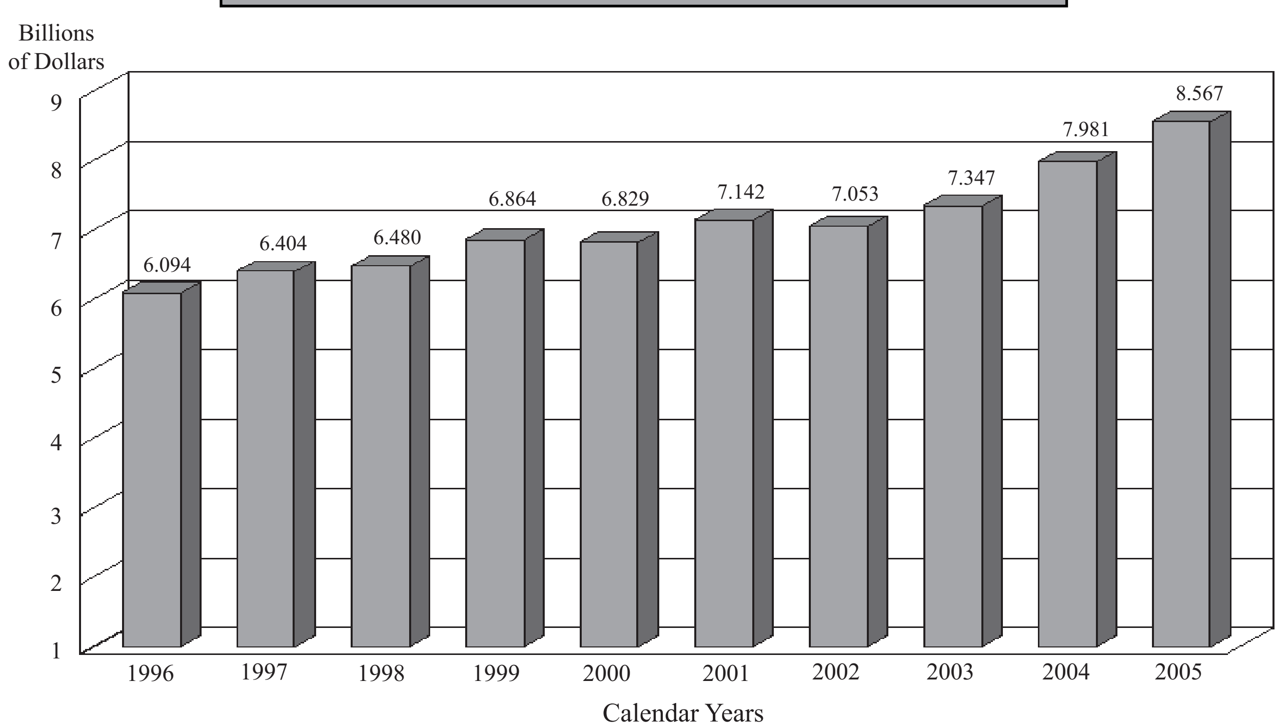
SOURCE: North Dakota Office of State Tax Commissioner.

Taxable Sales and Purchases
Percentage by Business Classification
Calendar Years 1996 and 2005





Trends in Taxable Sales and Purchases



North Dakota Sales and Use Tax Exemptions Estimated Biennial Fiscal Effect *

	Biennial Estimate Low	High
Exempt Products		
Resources		
Gasoline	$80,000,000	$100,000,000
Coal	25,000,000	30,000,000
Electricity	36,000,000	41,000,000
Water Through Mains	1,400,000	2,000,000
Publishing		
Newspapers	$2,500,000	$3,000,000
Magazine Subscriptions	1,200,000	1,500,000
Bibles, Hymnals, Prayerbooks and Textbooks Purchased by Private Schools		Less Than $5,000
Textbooks Purchased by Students	750,000	1,000,000
Medical		
Prescription Drugs	$8,800,000	$12,825,000
Oxygen and Anesthesia Gases	50,000	80,000
Artificial Devices (Hearing Aids, Eyeglasses, Limbs)	1,100,000	1,900,000
Ostomy Devices and Supplies	50,000	80,000
Diabetic & Bladder Dysfunction Supplies	250,000	350,000
Equipment to Modify Articles for Disabled	20,000	40,000
Sales to Hospitals and Nursing Homes	6,250,000	7,250,000
Agricultural		
Commercial Fertilizer (For Ag Purposes)	$15,000,000	$19,000,000
Livestock and Poultry Feed	13,500,000	18,000,000
Seeds for Planting	10,500,000	13,500,000
Fungicides, Herbicides, and Insecticides	14,500,000	19,000,000
Used Farm Machinery and Repair Parts	12,000,000	17,000,000
Other		
Money	250,000	350,000
Grocery Foods	60,000,000	70,000,000
Exempt Products Total	**$289,120,000**	**$357,875,000**
Miscellaneous Exemptions		
Rental of Hotel and Motel Accommodations	$190,000	$290,000
Film Rental (Movie Theater)	400,000	500,000
Sales to Residents of Montana	3,000,000	4,000,000
Sales to Residents of Canada (Refund)	600,000	900,000
State and Local Fairs	100,000	175,000
Private and Parochial Schools	500,000	700,000
Inter-State Telephone	2,000,000	4,000,000
Cable Television	3,000,000	4,000,000
Auctions	3,000,000	4,000,000
Manufacturing & Recycling Equipment	12,000,000	16,000,000
Miscellaneous Exemptions Total	**$24,790,000**	**$34,565,000**

	Biennial Estimate Low	High
Exempt Services		
Veterinary Services	$1,500,000	$2,000,000
Financial Services	3,250,000	5,500,000
Oil and Gas Field Services	10,000,000	15,000,000
Construction	15,000,000	24,000,000
Funeral Services	2,000,000	3,000,000
Miscellaneous Personal Services	600,000	700,000
Farm Machinery Repair	1,000,000	2,000,000
Transportation Services	200,000	400,000
Lawn Care Services	600,000	800,000
Engineering, Architecture, and Surveying	700,000	1,300,000
Health Services	80,000,000	125,000,000
Laundry, Dry Cleaning Service	1,200,000	2,000,000
Beauty and Barber Shops	3,000,000	4,000,000
Automotive Repair	8,000,000	12,500,000
Miscellaneous Repair	3,500,000	5,500,000
Accounting, Auditing and Bookkeeping	3,200,000	4,200,000
Business Services	6,000,000	7,000,000
Legal Services	7,000,000	9,000,000
Exempt Services Total	**$146,750,000**	**$223,900,000**
Grand Total All Exemptions	***$460,660,000***	***$616,340,000***
Partial Exemptions (fiscal effect is computed at 2% for new farm machinery and mobile homes; 3% for natural gas)		
New - Farm Machinery and Repair Parts	$9,000,000	$13,000,000
New Mobile Homes	300,000	500,000
Natural Gas	10,000,000	14,000,000
Total Partial Exemptions	**$19,300,000**	**$27,500,000**

* Calculations are based on 5% state sales and use tax rate. All amounts are preliminary and subject to change as additional information becomes available.

SOURCE: North Dakota Office of State Tax Commissioner, Research Section

Biennial Filing Deductions

Sales Taxes **$ 3,800,000**

Businesses with taxable sales and purchases of $333,000 or more per year receive compensation of up to $85 per month for filing monthly returns.

Cigarette Tax **$ 50,000**

Wholesalers who file and pay on time may deduct up to $100 per month. This deduction was originally to compensate for stamping cigarette packages. In 1991 the stamping requirement was repealed, but the compensation remains.

SOURCE: North Dakota Office of State Tax Commissioner,

STATE COMPARISONS

There are 13 states with general state sales tax rates lower than North Dakota's 5% rate. However, in comparing North Dakota's sales tax to other states, one must also consider the tax base, the goods and services subject to the tax, as well as the level of local sales taxes.

Tax Base. Does a state include groceries, electricity, prescription drugs, and services such as legal, business, accounting, architecture, lawn care?

In an effort to lessen the impact of taxes on a family's ability to buy necessities, North Dakota exempts groceries, residential electricity, and a few other essentials. States can also make a sales tax somewhat more progressive by taxing goods or services used mostly by upper income purchasers. The charts on the next few pages detail specific items taxed in each state.

Local Sales Taxes. In addition to a general state sales tax, most states allow local subdivisions to levy a sales tax as well. In some cases (Colorado, for example), the local rate may actually be higher than the state rate. As of September 2006, 109 cities and 2 counties impose a local tax from ¼ to 2½ percent. However, most local taxes have a refund provision that allows the purchaser to obtain a refund of the local tax paid on any portion of a purchase greater than $2,500. The most common local rate is 1 percent.

Example. A comparison of sales taxes in North Dakota and South Dakota provides a good example of the impact of different tax bases and local taxes. Because more goods and services are taxed in South Dakota, that state's 4% state sales tax rate generally results in a higher tax payment than North Dakota's 5% rate.

State Sales Tax Rates Comparison with the Other 45 States (and D.C.) That Levy a Sales Tax

October 1, 2006

	Number of States		
	Rates Lower Than N.D.	Rates the Same As N.D.	Rates Higher Than N.D.
Other States' Rates Compared to N.D.'s	13	7	25

Note: Out of a possible 168 taxable services, North Dakota taxes only 25 services and does not tax groceries or electricity.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, October 2006.

Total Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 2005

Rank	State	Per Capita Total Sales and Gross Receipts Taxes
1	Hawaii	$ 2,156
2	Washington	1,852
3	Nevada	1,630
4	Connecticut	1,461
5	Florida	1,433
6	Minnesota	1,294
7	Tennessee	1,282
8	Rhode Island	1,281
9	Wyoming	1,261
10	Vermont	1,249
11	Arkansas	1,244
12	Mississippi	1,206
13	West Virginia	1,186
14	New Jersey	1,167
15	South Dakota	1,165
16	Indiana	1,147
17	Michigan	1,140
18	Texas	1,131
19	Arizona	1,128
20	New Mexico	1,126
21	Nebraska	1,122
22	**NORTH DAKOTA**	**1,114**
23	Wisconsin	1,100
24	Pennsylvania	1,064
25	Idaho	1,051
26	Illinois	1,046
27	California	1,043
28	Maine	1,030
29	Kentucky	1,019
30	Louisiana	1,014
31	Kansas	1,012
32	Ohio	972
33	Maryland	943
34	Utah	943
35	South Carolina	913
36	Massachusetts	904
37	Iowa	886
38	North Carolina	877
39	Alabama	875
40	New York	839
41	Missouri	793
42	Georgia	768
43	Virginia	724
44	Oklahoma	705
45	Colorado	655
46	New Hampshire	538
47	Montana	486
48	Delaware	471
49	Alaska	299
50	Oregon	192
	US Average	$1,051

* Total Sales and Gross Receipts Taxes includes taxes on alcoholic beverages, amusements, insurance premiums, motor fuels, parimutuels, public utilities, tobacco products and other selective sales.

SOURCE: US Dept. of Commerce, Census Bureau.

General Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 2005

Rank	State	Per Capita General Sales and Gross Receipts Taxes
1	Hawaii	$1,676
2	Washington	1,455
3	Florida	1,071
4	Tennessee	1,026
5	Wyoming	1,026
6	Nevada	934
7	Connecticut	931
8	Arkansas	926
9	Mississippi	886
10	Arizona	877
11	Nebraska	862
12	California	829
13	Minnesota	819
14	New Mexico	807
15	South Dakota	801
16	Michigan	798
17	Indiana	797
18	Idaho	790
19	Rhode Island	784
20	New Jersey	752
21	Wisconsin	730
22	Kansas	725
23	Ohio	715
24	Texas	715
25	Maine	707
26	Utah	692
27	South Carolina	682
28	Pennsylvania	649
29	**NORTH DAKOTA**	**644**
30	Louisiana	632
31	Kentucky	622
32	Massachusetts	608
33	West Virginia	603
34	Georgia	585
35	Iowa	580
36	New York	571
37	Illinois	564
38	North Carolina	530
39	Missouri	524
40	Maryland	516
41	Vermont	499
42	Oklahoma	468
43	Alabama	446
44	Colorado	429
45	Virginia	409
46	Alaska	n/a
47	Delaware	n/a
48	Montana	n/a
49	New Hampshire	n/a
50	Oregon	n/a
	US Average	$717

SOURCE: US Dept. of Commerce, Census Bureau.

Comparison of State Sales Tax Rates

Tax Rates in Effect October 1, 2006

States	General State Rate	Highest Local Rate	Grocery Foods	Alcohol	Farm Machinery	Electricity (non-mfg. use)	Natural Gas (non-mfg. use)	Water (Utilities)	(12) Taxable Services of 164	DIRECT MANUFACTURING USE: Consumables	DIRECT MANUFACTURING USE: Natural Gas	DIRECT MANUFACTURING USE: Electricity	DIRECT MANUFACTURING USE: Machinery
Alabama	4.0%	5.0%	4.0%	4.0%	1.5%	4.0%	4.0%	4.0%	36	4.0%	4.0% (19)	4.0% (19)	1.5%
Alaska*	N/A	7.0%	N/A	N/A	N/A	N/A	N/A	N/A	1	N/A	N/A	N/A	N/A
Arizona(3)	5.6%	3.5% (53)		5.6%		5.6%	5.6%	5.6%	58		5.6%	5.6%	
Arkansas	6.0%	3.5%	6.0%		6.0%	6.0%	6.0%	6.0%	72				
California	6.25%	2.0%		6.25%	1.250%	.00022 cents (5)	Varies		23	6.25%	Varies (5)	.00022 cents (5)	6.25%
Colorado	2.9%	5.0%		2.9%		2.9% (6)	2.9% (6)		14	2.9%			2.9%
Connecticut	6.0%			6.0%	(4)	6.0% (6) (7)	6.0% (6) (7)	(16)	80	6.0% (1) (15)	(22) (15)	(22)	(1) (22)
District of Columbia	5.75%			9%/10% (13)					68	5.75%			5.75%
Delaware*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	143	N/A	N/A	N/A	N/A
Florida	6.0%	1.5%		6.0%		7.0%	6.0% (6)		62	6.0%			6.0% (14)
Georgia	4.0%	4.0%		4.0%		4.0%	4.0%		36	4.0%	4.0% (29)	4.0%	
Hawaii	4.0%		4.0%	4.0%	4.0%	4.0%		4.0%	158	4.0%	4.0%	4.0%	4.0%
Idaho	6.0%	3.0%	5.0%	5.0%	(4)				30				
Illinois	6.25%	3.0%	1.0%	6.25%		(5)	(5)		17				
Indiana	6.0%			6.0%		6.0%	6.0%	6.0%	23				
Iowa	5.0%	1.0%		5.0%		5.0% (32)	5.0% (32)	5.0%	93				
Kansas	5.3%	2.75%	5.3%			5.3% (6) (7)	5.3% (6) (7)	5.3% (6) (7)	71			(2)	
Kentucky	6.0%			(54)		6.0% (6)	6.0% (6)	6.0% (6)	27		6.0% (20)	6.0% (20)	(14)
Louisiana	4.0%	7.0%		4.0%	4.0% (49)	(35)	(35)		55	4.0%	3.3%	3.3%	
Maine	5.0%			5.0% (41)	(4)	5.0% (42)	5.0% (6)	5.0% (6)	24	(17)			
Maryland	5.0%			5.0%		5% (6)	5.0% (6)	5.0% (7)	39				
Massachusetts	5.0%					5.0% (6) (21) (43)	5.0% (6) (21) (43)	5.0% (6) (21) (43)	19		(21) (43)	(21) (43)	
Michigan	6.0%			6.0%	(4)	6.0% (8)	6.0% (8)		26	(18)			(10)
Minnesota	6.5%	1.0%		(24)		6.5% (6) (7)	6.5% (6) (7)	6.5% (6)	67				(14)
Mississippi	7.0%	0.25%	7.0%	7.0%	(25)	7.0% (6)	7.0% (6)	7.0% (6)	74	7.0%	1.5%	1.5%	1.5%
Missouri	4.225%	4.5%	1.225%	4.225%	(27)	(6) (11)	(6) (11)	(6) (11)	27	4.225%	4.225%	4.225% (23)	(14)
Montana*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19	N/A	N/A	N/A	N/A
Nebraska	5.5%	1.5%		5.5%		5.5%	5.5%	5.5%	76	5.5%	5.5% (22)	5.5% (22)	5.5%
Nevada	6.5%	7.75%		6.5%	6.5%				15	6.5%			6.5%
New Hampshire*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9	N/A	N/A	N/A	N/A
New Jersey	7.0%	9.0% (30)		6.0% (31)		6.0%	6.0%		55	6.0%	6.0%	6.0%	
New Mexico	5.0%	2.875%		5.0%	2.5%	5.0%	5.0%	5.0%	151	5.0%	5.0%	5.0%	5.0%
New York	4.0%	5.5%		4.0%		4.0% (6)	4.0% (6)		74				
North Carolina	4.5% (65)	3.0%	2.0%	7.0% (66)		3.0%	4.50% (55)(65)	4.50% (56)(65)	29	(26)	2.83% (33)	2.83% (33)	(26)
NORTH DAKOTA	5.0%	2.5%		7.0% (50)	3.0% (51)		2.0%		25	5.0%	2.0%		(14)
Ohio	5.5%	2.0%		5.0%	5.0% (4)		5.0% (28)		66				
Oklahoma	4.5%	5.0%	4.5%	4.5%		4.5% (6)	4.5% (6)		32				
Oregon*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	N/A	N/A	N/A	N/A
Pennsylvania	6.0%	1.0%		6.0% (34)	(7)	6.0% (6)	6.0% (6)	6.0% (6)	55				
Rhode Island	7.0%			7.0%	(4)	7.0% (6)	7.0% (6)	7.0% (6)	29				
South Carolina	5.0% (57)	2.0%	5.0% (58)	5.0%		5.0% (6)	5.0% (6)	5.0% (59)	34	(18)			
South Dakota	4.0%	2.0%	4.0%	4.0%	4.0% (64)	4.0%	4.0% (7)	4.0% (6)	144	4.0%	4.0%	4.0%	4.0%
Tennessee	7.0%	2.75%	6.0%	7.0%		Varies (9)	Varies (9)	7.0%	67		1.5%	1.5%	
Texas	6.25%	2.0%		6.25% (45)		6.25% (6)	6.25% (6)		79				
Utah	4.75%	1.0%	2.75% (60)	4.75% (47)		2.0% (46)	2.0% (46)		58	4.75%			
Vermont	6.0%	1.0%		(37)		6.0%	6.0%		29				
Virginia	4.0%	1.0%	1.5%	4.0%	(61)	(38)	(38)	(38)	18		(38)	(38)	
Washington	6.5%	2.4%		6.5% (62)	6.5%	(39)	(39)	(39)	155	6.5%	(39)	(39)	
West Virginia	6.0%		5.0%	6.0%					110	6.0%			
Wisconsin	5.0%	0.6%		5.0%	(4)	5.0% (52) (7)	5.0% (52) (7)		70	5.0%	5.0% (18)	5.0% (18)	5.0% (18)
Wyoming	4.0%	2.0%	(63)	4.0%		4.0% (7)	4.0% (7)		61	4.0% (44)	(44)		(48)

* This state does not impose a sales tax.

Comparison of State Sales Tax Rates - - - Footnotes

(1) Provides full exemption from manufacturing. Connecticut has a broader overlapping partial (50%) exemption from materials, tools, fuel, machinery and equipment used in fabricating and processing.
(2) Electricity used to power manufacturing equipment is exempt.
(3) Arizona is a Transaction Privilege Tax state, not a Sales Tax state.
(4) Farm machinery is exempt from sales and use taxes if the purchaser is engaged in farming as a business enterprise.
(5) In some states the tax is called a "utility tax" rather than a sales tax. In California the tax is an energy resources surcharge paid by consumers. In the District of Columbia, the tax is a gross receipts tax.
(6) Residential use is exempt.
(7) Agricultural use is exempt.
(8) In Michigan, the tax rate is 4% on electricity and natural gas used for home heating.
(9) Residential use is exempt, commercial is 7%, industrial 1.5%.
(10) Exemption is based on percentage used in manufacturing.
(11) Hotels and motels are exempt.
(12) The number of taxable services is out of a possible 164 services covered in the study, "Sales Taxation of Services," Federation of Tax Administrators, 2004.
(13) 9% for liquor sold for off-premise consumption and 10% for liquor sold for consumption on the premises.
(14) The exemption is generally for machinery and equipment used for new or expanding production. States have different definitions and qualifications.
(15) Materials, tools and fuel used in the actual fabrication of a product for sale, in an agricultural production process, or in the fishing industry are exempt.
(16) Exempt when delivered to customers through mains, lines, pipes or bottles.
(17) Exempt if consumed within 1 year.
(18) Exempt when used in actual production process.
(19) Exempt if separately metered and used in electrothermal or electrolytic process manufacturing.
(20) Amounts over 3% of production costs are exempt.
(21) Exempt for business qualifying for "small business" status.
(22) Exempt if more than 50% is used in manufacturing.
(23) May apply for exemption, if electricity cost is greater than 10% of production costs.
(24) 3.2% beer is taxed at 6.5%. Over 3.2% beer and hard liquor is taxed at a 6.5% sales tax rate and 2.5% gross receipts tax.
(25) Farm machinery is taxed at 1% for farm tractors, 3% for listed farm implements, and 7% for nonlisted farm items.
(26) Effective 1/1/06, sales of machinery and consumables to manufacturers are exempt from sales tax but subject to a 1% privilege tax with a maximum tax of $80.00 per article.
(27) Exempt if used exclusively for agricultural purposes, used on land that is owned or leased to produce farm products, and used directly in production of farm products.
(28) If sold by public utility then it is exempt. If sold by non-public utility then taxed at 5%.
(29) Natural gas directly used to produce electricity is exempt from the 4% State Tax.
(30) This is the Atlantic City Luxury Sales Tax which is imposed on specific taxable retail sales within Atlantic City.
(31) Alcoholic beverages are also subject to an additional 3% Atlantic City Luxury Sales Tax on sales within Atlantic City.
(32) The sale, furnishing, or service of metered gas and electricity on or after January 1, 2006, or if the sale, furnishing, or service of fuel for purposes of residential energy and the delivery of the fuel occur on or after January 1, 2006, the rate of state tax is 0% of the gross receipts.
(33) Based on prior year megawatt hours. 0-900,000 = 2.83%. Over 900,000 hours = .17%
(34) Pennsylvania imposes 6% sales tax on alcohol purchased from the Liquor Control Board or beer distributors/wholesalers. No tax is levied on retail sales of alcohol from eating/drinking establishments.
(35) Sales of electricity and natural gas for non-residential use is subject to the suspended rate or 3.8% (effective through 6/30/09.)
(36) Only three cities have this high rate. Weighted average of 1.45% is more representative.
(37) Wine is subject to 6% sales tax. Other alcoholic beverages are not, however all alcoholic beverages are subject to 10% restaurant and lodging tax if purchased at a bar or restaurant.
(38) Virginia has a three-tier tax rate system called a consumption tax for gas and electricity. This is paid by the consumer. The rate goes down as usage goes up.
(39) There is a public utility tax levied on the provider, not a sales tax.
(40) Effective July 1, 2004, 5% of the price of manufacturing machinery and equipment will be excluded from state sales tax. The phase-out continues until fully exempt beginning July 1, 2010.
(41) Taxed at 7% if served at a restaurant.
(42) First 750 kilowatt hours are exempt.
(43) Industrial use is exempt.
(44) Sales of tangible personal property to a person engaged in the business of manufacturing, processing or compounding when the tangible personal property purchased becomes an ingredient or component of the tangible personal property manufactured, processed or compounded for sale or use and sales of containers, labels or shipping cases used for the tangible personal property so manufactured, processed or compounded. This subparagraph shall apply to chemicals and catalysts used directly in manufacturing, processing or compounding which are consumed or destroyed during that process. W. S. 39-15-105(a)(iii)(A).
(45) Mixed drinks sold at retail establishments are subject to a 14% gross receipts tax.
(46) Commercial electric and gas utility rate is 4.75%.
(47) Wine and liquor also subject to a 13% excise tax to pay for school lunches.
(48) Effective July 1, 2004. Machinery must be purchased by a manufacturer classified under NAICS code sector 31-33, does not include non-capitalized machinery except machinery expensed under Section 179 of the IRS Code, and must be executed in the case of a lease and in the case of a sale on or after July 1, 2004.
(49) The first $50,000 of the sales price on certain farm equipment is exempt from the state sales tax.
(50) 7% Alcohol tax is a gross receipts tax.
(51) 3% Farm Machinery tax is a gross receipts tax.
(52) Residential heating use is exempt in the months of November through April.
(53) The highest general privilege tax rate is 3.5%. Several cities have higher rates imposed on certain industries.
(54) 6% Sales tax only applies to on-premises consumption.
(55) Piped natural gas is exempt from sales tax and subject to the piped natural gas tax. Sales of natural gas not piped is taxable at the general rate.
(56) Water delivered by or through mainlines or pipes for either commercial or domestic use or consumption is exempt. Sales of water not delivered by or through main lines or pipes is taxable at the general rate.
(57) 6% effective June 2007.
(58) Effective October 1, 2006, rate will be 3% if food can be purchased with USDA food coupon.
(59) Water sold by public utilities are exempt if rates and charges are of the kind determined by the PSC of water sold by nonprofit corporations organized pursuant to Chapter 36 of Title 33 South Carolina Code of Laws.
(60) Will take effect on January 1, 2007.
(61) Exempt if used in agricultural production for market.
(62) Sales tax applies to sales of beer and wine only.
(63) Effective July 1, 2006 food for domestic home consumption is sales/use tax exempt while prepared food remains taxable.
(64) Farm machinery is no longer a sales tax, it is a 4% excise tax.
(65) 4.25% effective December 1, 2006.
(66) 6.25% effective December 1, 2006.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, October 2006.

Sales Tax Comparison of Surrounding States and Provinces
Rates in Effect October 1, 2006

	NORTH DAKOTA	SOUTH DAKOTA	WYOMING	MINNESOTA	IOWA	(2) MANITOBA	(2) SASKATCHEWAN
GENERAL STATE RATE	5%	4%	4%	6.5%	5%	7%	7%
MAXIMUM LOCAL RATE	2.5%	2%	2%	1%	1%		
PRODUCTS							
Motor Vehicles (sales or excise tax)	5%	3%	4%	6.5%		7%	7%
Natural Gas (sales or utility)	2%	4% (3)	4% (4)	6.5% (5)	5% (6)	7% (31)	
Electricity		4%	4% (4)	6.5% (5)	5% (6)	7% (31)	7% (4)
Coal	5% (8)	4%	4% (4) (1)		5%		
City and Rural Water				6.5% (9)	5%		
Newspapers (retail & subscription)		4%				7%	
Magazines (retail)	5%	4%	4%	6.5%	5%	7%	
Magazines (subscriptions)		4%	4%		5%	7%	
Bibles/Textbooks to Religious Groups		4%	(39)		5%		
Prescription Drugs							
Agricultural Supplies			4% (7)			(32)	(10)
New Farm Machinery	3% (35)	4%				(32)	
Farm Machinery Parts			4%			(32)	
Alcoholic Beverages	7% (36)	4%	4%	6.5% or 9% (13)	5%	7%	10%
Money (gold & silver coins)		4%			5%	7% (15)	7% (15)
Mobile Homes - - New	3%	3%	4% (11)	6.5% (16)	5% (17)	7% (18)	3.5% (19)
Mobile Homes - - Used		3%			(42)	7% (18)	(19)
Grocery Foods		4%	(40)				
Restaurant	5%	4%	4%	6.5%	5%	7%	
MISCELLANEOUS							
Hotel & Motel Accommodation Rental	5% (20)	4%	4%	6.5%	5% (20)	7% (20)	7%
Film Rental to Theaters & TV Stations			4%				
Film Rentals (other than to Theatres/TV)	5%	4%	4%	6.5%	5%	7%	7%
State/Local Fairs/Admission				6.5%			
Inter-State Telephone				6.5%		7%	7%
Cable Television		4%		6.5%	5%	7%	7%
Receipts from Vending Machines	5%	4% (37)	4%	6.5%	5%	7% (36)	7% (23)
Sales to Private and Parochial Schools			4% (24)			7%	7%
Sales to Hospitals		4% (12)	4% (24)	6.5% (25)		7% (33)	7%
Sales to Nursing Homes		4%	4% (24)	6.5% (25)	5%	7% (33)	7%
SERVICES (26)							
Number of Taxable Services (26)	25	144	61	67	94	N/A	N/A
Veterinary Services		4%					7%
Financial Services		4% (27)			5%		
Oil & Gas Field Services (non-materials)		4%	4%				
Construction (non-materials)		2% (28)				(34)	
Funeral Services		4%					
Miscellaneous Personal Services		4% (29)			5%		
Transportation Services		4% (21)	4% (14)		5% (14)		
Lawn Care Services		4%		6.5%	5%		
Engineering, Architecture & Surveying		4%				(22)	(22)
Health Services							
Laundry & Dry Cleaning Service		4%	4%	6.5%	5%	7%	7%
Beauty and Barber Shops		4%			5%		
Farm Machinery Repair			4%		5%	(32)	
Automotive Repair		4%	4%		5%	7%	7%
Miscellaneous Repair		4%	4%		5%	7%	7%
Accounting, Auditing & Bookkeeping		4%				7%	7%
Business Services (consulting, etc.)		4%			(41)		
Legal Services		4%				7%	7%
COMPENSATION TO RETAILERS	Yes (30)	Yes (39)	No	No	No	Yes (30)	Yes

Sales Tax Comparison of Surrounding States and Provinces
Footnotes

(1) Exempt as a fuel for use as boiler fuel in the production of electricity.
(2) Canada also levies a federal goods and services tax (GST) of 7% in addition to the general provincial sales tax (PST).
(3) Exempt for agricultural use.
(4) Exempt if used directly in manufacturing, processing, or agricultural.
(5) Exempt for agriculture and industrial production of personal property and exempt for residential use during the winter months.
(6) Exempt if used in manufacturing.
(7) Exempt if feeds, seeds, roots, bulbs, small plants & fertilizer.
(8) Coal mined in North Dakota is subject to severance tax and is exempt from sales tax. Coal mined outside North Dakota and coal used for heating buildings is subject to sales tax.
(9) Residential water bills are exempt.
(10) Exempt if primary function is for agriculture; multi use products are taxable.
(11) Seventy percent of price.
(12) Exempt if hospital is charitable or non-profit.
(13) Beer with alcohol content of 3.2% is taxed at 6.5%. Beer with alcohol content over 3.2%, hard liquor, and wine are taxed at 9%.
(14) Limo services are taxable. (Intra and Inter-state Transportation Services are exempt in Wyoming).
(15) Taxable if sold above face value.
(16) Sixty-five percent of dealer's cost of new mobile homes is taxed at 6.5% (effective rate is 4.225%).
(17) Sixty percent of the purchase price is subject to a use tax.
(18) Effective April 1, 2006 a point-of-sale exemption is available on the residential purchase of a mobile, modular or ready-to-move home. Vendors will apply sales tax, at point of sale, at a rate of 4% of the basic selling prices (excluding furniture, appliances, etc.).
(19) New residential mobile homes are taxed at 3.5%. Used residential mobile homes are exempt if previously used in Saskatchewan. New and used non-residential mobile homes are taxed at 7%.
(20) Rooms rented by and for same individual are exempt if rented 30 consecutive days (in North Dakota) or 31 consecutive days (in Iowa). In Manitoba, hotels and motels rented for one continuous month or more are exempt, and rooms in a lodging/rooming boarding houses with accommodations for less than four tenants is also exempt.
(21) Only passenger Transportation is taxable in South Dakota.
(22) A percentage of design fees are taxable. For Architects, a percentage of Phase II, III, IV or V is taxable. For Engineers, a percentage of Category III is taxable [Category III: Design, in the Association of Professional Engineers and Geoscientists of the Province of Manitoba (APEGM) Categories of Services]
(23) Vending machine receipts for taxable items are taxable. Pop and candy are not taxable items.
(24) Sales to schools, hospitals or nursing homes considered charitable or religious are exempt on Wyoming.
(25) Any licensed health care facility or a health care professional can purchase goods used in the treatment of a patient tax free. However, only a hospital can purchase medical equipment tax free.
(26) The number of taxable services in the study "Sales Taxation of Services," Federation of Tax Administrators, 2004.
(27) Real estate commissions are taxable; other financial services are exempt.
(28) Two percent on prime contract.
(29) Most membership fees are exempt.
(30) Maximum compensation to retailer in North Dakota is $85 per monthly return ($1,020 per year), and in Manitoba, $58 per return. Effective July 1, 2004, vendors with tax reported of greater than $3,000 in one period no longer receive compensation.
(31) Natural gas (sales or utility), electricity and coal are not subject to Manitoba's sales tax, however tax of 7% is applicable. There is an exemption from revenue tax on electricity and natural gas used for heating residential dwellings, farm buildings and grain dryers, and for domestic purchases of coal.
(32) Agricultural supplies, farm machinery and farm machinery parts can be purchased exempt by a farmer in Manitoba by completing a farm-use certificate.
(33) Equipment and supplies designed solely for the use of physically disabled persons or chronic invalids, and drugs dispensed on the prescription of a medical practitioner are tax exempt in Manitoba.
(34) Effective October 1, 2002, mechanical and electrical contracts are subject to 7% tax on the full selling price including materials and labor.
(35) The 3% rate is a Gross Receipts Tax.
(36) The 7% rate is a Gross Receipts Tax.
(37) No tax is payable on the receipts of a vending machine where the vending machine accepts only a single $0.25 coin as the total consideration for the purchase. Vending machine operators (that operate vending machines of this sort) are required to pay sales tax on the goods that are available for sale through these vending machines.
(38) One and one-half percent of tax up to a maximum of $70 per period but will not go into effect until the Streamlined Sales Tax Fund for South Dakota reaches $10 million.
(39) Exempt per prior approval.
(40) Effective July 1, 2006, food for domestic home consumption is sales/use tax exempt.
(41) Investment counseling is taxable at 5%.
(42) Exempt if previously taxed.

OIL AND GAS TAXES

CURRENT LAW

Oil And Gas Gross Production Tax

Imposition and Rates

The oil and gas gross production tax is imposed in lieu of property taxes on oil and gas producing properties.

Oil. A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation. Both the producer and purchaser of the oil are required to submit reports to the Tax Commissioner on a monthly basis. The reports show the volume and taxable value of sales of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax on oil bought during a production month. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers are required to file monthly reports electronically.

Gas. The gross production tax on gas is an annually adjusted flat rate per thousand cubic feet (mcf) of all nonexempt gas produced in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 2007 are as follows:

Time Period	Tax Rate
July 1, 2002 - June 30, 2003	$.0824
July 1, 2003 - June 30, 2004	$.0615
July 1, 2004 - June 30, 2005	$.1037
July 1, 2005 - June 30, 2006	$.1215
July 1, 2006 - June 30, 2007	$.1640

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.

Shallow gas produced during the first 24 months of production from and after the first date of sales from a shallow gas zone after June 30, 2003, is exempt from gross production tax. This exemption is ineffective for gas wells completed or recompleted after June 30, 2007.

Monthly reports to the Tax Commissioner are required from both the producer and the purchaser/processor of the gas. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers/processors are required to file monthly reports electronically.

Distribution of Revenue

Revenue from the gross production tax is distributed under the following formula:

- One-fifth is deposited with the State Treasurer. Of this portion, 33 1/3% is allocated to the Oil and Gas Impact Grant Fund, up to a maximum of $5 million per biennium. The remainder of this portion is credited to the State General Fund.
- Four-fifths is allocated between the State General Fund and the producing county according to the following formula:

Revenue	County	State
Up to $1 million	75%	25%
$1 to $2 million	50%	50%
Over $2 million	25%	75%

However, the amount any one county can receive per fiscal year is limited according to population as follows:

Population	Maximum Distribution
Up to 3,000	$ 3.9 million
3,000 to 6,000	4.1 million
6,000 or more	4.6 million

Tax revenue distributed to a county is further split with 45% earmarked for the county general fund, 35% for the school districts within the county, and 20% to incorporated cities within the county.

Oil Extraction Tax

Imposition and Rates

The oil extraction tax is levied on the extraction of oil from the earth. The tax rate is 6½% of the gross value at the well of crude oil. However, the rate is reduced to 4% for oil produced from the following:

- A vertical or horizontal new well, after the appropriate exemption expires.
- A workover well after the exemption expires.
- Incremental oil from a qualifying secondary or tertiary recovery project, after the 5-year or 10-year exemption expires.
- Nonincremental oil from a qualifying secondary recovery project that has reached an average production level of at least 25% over normal operations for six consecutive months.
- Nonincremental oil from a qualifying tertiary recovery project that has reached a production level of at least 15% over normal operations for one month and continues to be operated as a qualifying project.

A qualifying *secondary recovery project* is a unit that uses water flooding and is certified by the North Dakota Industrial Commission. A qualifying *tertiary recovery project* is a unit that uses an enhanced recovery method which conforms with federal tax code provisions and is certified by the North Dakota Industrial Commission.

The oil extraction tax is paid monthly with the gross production tax on a combined reporting form.

Exemptions

To receive the full benefit of an exemption or the 4% reduced rate, a producer must file the Industrial Commission's certification of well status with the Tax Commissioner within 18 months of the first day of eligibility. If the producer does not file within the 18-month period, then the exemption or reduced rate begins the first day of the month in which the certification is received by the Tax Commissioner.

The exemptions to the oil extraction tax are as follows:

- Royalty interest in oil extracted from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.
- Oil extracted from a certified stripper well property. A stripper well property is property whose average daily production during a 12-month period did not exceed 10 barrels per day for a well of a depth of 6,000 feet or less, 15 barrels per day for a well of a depth of more than 6,000 feet but not more than 10,000 feet, and 30 barrels per day for a well of a depth of more than 10,000 feet.
- Oil produced during the first 15 months of production from a vertical new well. This exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 24 months of production from a horizontal new well. The exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 60 months of production from either a vertical new well or a horizontal new well drilled and completed on tribal trust land.
- Oil produced from a horizontal reentry well for a period of 9 months beginning on the date the well is recompleted as a horizontal well. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a two-year inactive well for a period of ten years beginning the first day of the month in which the Industrial Commission's certification is received by the Tax Commissioner. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a qualifying well that has been worked over. The exemption is for a 12-month period starting with the first day of the third month after completion of the workover project. A qualifying well is a well that has produced less than 50 barrels per day during the last six months of continuous production before workover. The well operator must notify the Industrial Commission before beginning the project. Project cost must exceed $65,000 or production must increase 50% or more in the first two months after project completion. The exemption is subject to the "trigger" provisions described below.
- Oil produced from a two-year inactive well for a period of ten years after being recompleted or returned to production. The exemption is subject to the "trigger provisions" described below.
- Incremental oil from a qualifying secondary or tertiary recovery project. The exemption is 5 years for secondary recovery projects and 10 years for tertiary recovery projects from the date the incremental production begins.

“Trigger” Provisions

The reduced rate provisions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, workover wells, and enhanced recovery wells are ineffective if the average price of a barrel of crude oil exceeds the trigger price (thirty-five dollars and fifty cents, as indexed for inflation) for each month in any consecutive five-month period. Except for incremental oil produced from enhanced recovery wells, exemptions for the above wells also become ineffective if the average price of a barrel of crude exceeds the trigger price for the same consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each months in any consecutive five-month period.

Following the statutory guidelines, the Tax Commissioner has determined that the trigger price for calendar year 2004 is $35.11, and the average prices for the five-month period of May 2004 through September 2004 were:

May	June	July	August	September
$37.58	$35.63	$38.20	$42.48	$43.21

Based on these prices, the Tax Commissioner has determined that the tax incentives subject to the trigger price became ineffective for production periods beginning October 1, 2004, and until such time as the statutory provisions for reinstatement are met.

The trigger price effective for calendar years through December 31, 2007 are as follows:

Time Period	Trigger Price
Jan. 1, 2004 - Dec. 31, 2004	$35.11
Jan. 1, 2005 - Dec. 31, 2005	$36.48
Jan. 1, 2006 - Dec. 31, 2006	$39.36

Distribution of Revenue

Revenue from the oil extraction tax is distributed as follows:

- 60% to the State General Fund.
- 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund.
- 20% to the Southwest Water Pipeline Sinking Fund and to a Resources Trust Fund. Principal and income from the Resources Trust Fund may be expended only pursuant to legislative appropriation and are available for water and certain energy related projects.

HISTORICAL OVERVIEW

Oil And Gas Gross Production Tax

Significant Changes In Law

1953 Session. The gross production tax was imposed at a rate of 4¼% of gross value at the well.

1957 Session. The rate was increased from 4¼% to 5% and the revenue distribution formula was adjusted.

1981 Session. The revenue distribution formula was amended.

1983 Session. Monthly rather than quarterly remittance was required, and the maximum distributions to the counties was increased.

1985 Session. Oil reclaimed from tank bottoms and pit oil material has value for tax purposes only if a cash price is paid by the oil reclaimer.

1989 Session. The law was changed to specifically state the gross production tax is a real property tax. The revenue distribution formula was amended, effective July 1, 1991 to allocate 33 1/3 % of the first one-fifth portion to the Oil and Gas Impact Grant Fund.

1991 Session. The tax on gas was changed from 5% of gross value to an annually adjusted flat rate per mcf. Procedures were provided for determining gross value at the well of oil under arm’s length and non-arm’s length contracts. The legislature approved the Taxpayer Bill of Rights.

1993 Session. The interest accrual period was changed on tax refunds for periods after June 30, 1993. Interest begins to accrue 60 days after the due date of the return, after the return was filed, or after the tax was fully paid, whichever occurs later. Tax from undetermined sources will be allocated between the State General Fund and the county that received the least amount of revenue during the fiscal year.

1997 Session. The periods for assessment or refund run from the due date of the original return or the date the original return was filed whichever is later. The Tax Commissioner has two years after an amended return is filed to audit that return and assess any additional tax that is due. The Tax Commissioner has authority to require purchasers to file monthly reports by electronic data interchange or other form of electronic media and can waive the producer's requirement to file a monthly return. Authorized the use of alternative methods for signing, subscribing, or verifying a return filed by electronic means, including telecommunications. A permanent oil tax trust fund was established for the deposit of oil extraction and gross production tax revenues which exceed specific amounts in a biennium.

1999 Session. The legislature changed the manner in which unallocated oil and gas gross production taxes collected from unidentified sources is distributed. Previously, the unallocated taxes were distributed to the county with the lowest total gross production tax distribution for the fiscal year. After June 30, 1999, the unallocated taxes will be distributed to each county in the same proportion as total gross production tax allocations for the fiscal year.

Oil Extraction Tax

Significant Changes in Law

1980 Initiated Measure. Voters in the 1980 General Election passed an initiated measure creating the 6½% oil extraction tax. The revenue distribution formula was: 45% to the State General Fund, 45% to schools, and 10% to the trust fund. The measure also included an individual income tax energy cost relief credit.

1981 Session. The legislature amended the distribution formula.

1983 Session. The distribution formula was changed. Filing requirements were changed from a quarterly to a monthly basis.

1987 Session. An exemption for the first 15 months of production from a new well (drilled and completed after April 27, 1987) was provided. The rate was reduced from 6½% to 4% for a new well after the 15-month exemption and for production from a qualifying secondary or tertiary recovery project well. These incentives would be eliminated if the average crude oil price is $33 or more per barrel. The legislature repealed the exemption for private royalty interest and expanded the stripper well definition to allow more marginal wells to qualify for an exemption.

1989 Session. A 12-month exemption was provided for production from a qualifying well after completion of a workover project. This incentive is subject to the "trigger."

1991 Session. An exemption was created for incremental oil from a qualifying secondary or tertiary recovery project. A June 30, 1995 sunset was placed on certification of secondary projects. After the expiration of the exempt period, the incremental oil would be eligible for the 4% reduced rate. The reduced rate incentive is subject to the "trigger." The "trigger" was amended to reinstate the reduced rates and exemptions if the average crude oil price falls below $33 per barrel.

1993 Session. The workover exemption was amended to eliminate the $30,000 minimum project cost requirement and a 4% reduced rate was adopted for oil produced from wells which receive the workover exemption after June 30, 1993.

1995 Session. The stripper well definition was broadened from 20 to 30 barrels per day for wells over 10,000 feet deep. The exemption for a horizontal new well was increased from 15 to 24 months and a 9-month exemption was created for a horizontal reentry well. A 10-year exemption was created for oil from a two-year inactive well. To get the full benefit of an exemption or the 4% reduced rate, producers were given an 18-month period to file the Industrial Commission's certification of well status with the Tax Commissioner. For secondary recovery projects, the sunset for certification was removed. The revenue distribution formula was changed.

1997 Session. A 60-month exemption was created for production from a well drilled and completed on an Indian reservation or on tribal trust land after July 31, 1997. Previous legislation was amended to keep the current distribution factors at the current percentages.

2001 Session. The "trigger" provision for exemptions and rate reductions was amended to clarify when the trigger was to be become effective. All rate reductions and exemptions subject to the trigger provision become ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period. Average price is defined as the monthly average of the daily closing price for a barrel of west Texas intermediate Cushing crude oil minus two dollars and fifty cents. Trigger price is defined as thirty-five dollars and fifty cents, as indexed for inflation.

2003 Session. An oil and gas research council was created and an oil and gas research fund was established with a continuing appropriation provided. A temporary exemption from gross production tax was provided for gas produced from shallow gas wells with an expiration date of June 30, 2007. The two-year inactive well exemption was amended to clarify the definition of a two-year inactive well and to provide an 18 month provision to qualify the well for an exemption to be consistent with other oil extraction tax exemptions. The work-over well exemption was amended to remove the requirement that a notice of intention must be filed before a work-over project is commenced to qualify for an exemption.

2005 Session. The legislature provided for a sales and use tax exemption for carbon dioxide used for the enhanced recovery of oil or natural gas.

Oil and Gas Taxes Distribution Formula Changes

Gross Production Tax

Amount		State		Counties					Maximum County		
	Increments	General Fund	Oil & Gas Impact Grant Fund	Total County %	Cities	School Districts	Road and Bridge Fund	General Fund	County Population Under 3,000	3,000 to 6,000	Over 6,000
1957 Session	First 1/5:	100%									
	Remaining 4/5:										
	1st $200,000................	25%		75%							
	2nd $200,000	50%		50%	15%	45%	40%				
	3rd $400,000..............	75%		25%							
1981 Session	First 1/5:	100% [1]									
	Remaining 4/5:									FY-1982	
	1st $ Million................	25%		75%					$3.2 M	$3.5 M	$4.0 M
	2nd $ Million	50%		50%	20%	35%		45%		FY-1983	
	Over $2 Million	75%		25%					$3.8 M	$4.0 M	$4.5 M
1983 Session									$3.9 M	$4.1 M	$4.6 M
1989 Session	First 1/5:	66 2/3% [3]	33 1/3% [2]								

[1] For the 1981-83 biennium only, the legislature provided that up to $32 million of the 1/5 State General Fund share be distributed to the Highway Tax Distribution Fund and to township road and bridge funds.

[2] Up to a maximum of $5 million per biennium. The remainder is deposited in the State General Fund.

[3] Total oil collections to the State general fund are capped at $71 million per biennium. All revenue in excess of $71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

Oil Extraction Tax

	State General Fund	Education Funds	Water Pipeline & Trust Fund
1980 Measure #6	45%	45%	10%
1981 Session	30%	60%	10%
1983 Session	90%	10%	
1995 Session:			
FY 1996 and 1997	60%	20%	20%
After FY 1997	70%	20%	10%
1997 Session: After FY 1997	60% [1]	20%	20%

[1] Total oil collections to the State general fund are capped at $71 million per biennium. All revenue in excess of $71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

Oil and Gas Gross Production Tax Revenue

Fiscal Year	Total Net Collections	State General Fund
1996	26,905,996	13,550,184
1997	34,772,117	19,054,995
1998	29,521,309	15,744,740
1999	22,705,995	11,228,673
2000	38,041,008	21,062,999
2001	46,029,027	17,370,366
2002	36,515,072	20,530,727
2003	43,477,533	24,985,793
2004	47,519,075	28,256,440
2005	74,046,219	49,629,401
* 2006	104,378,689	45,774,119
* 2007 est.	116,789,000	-0-

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections

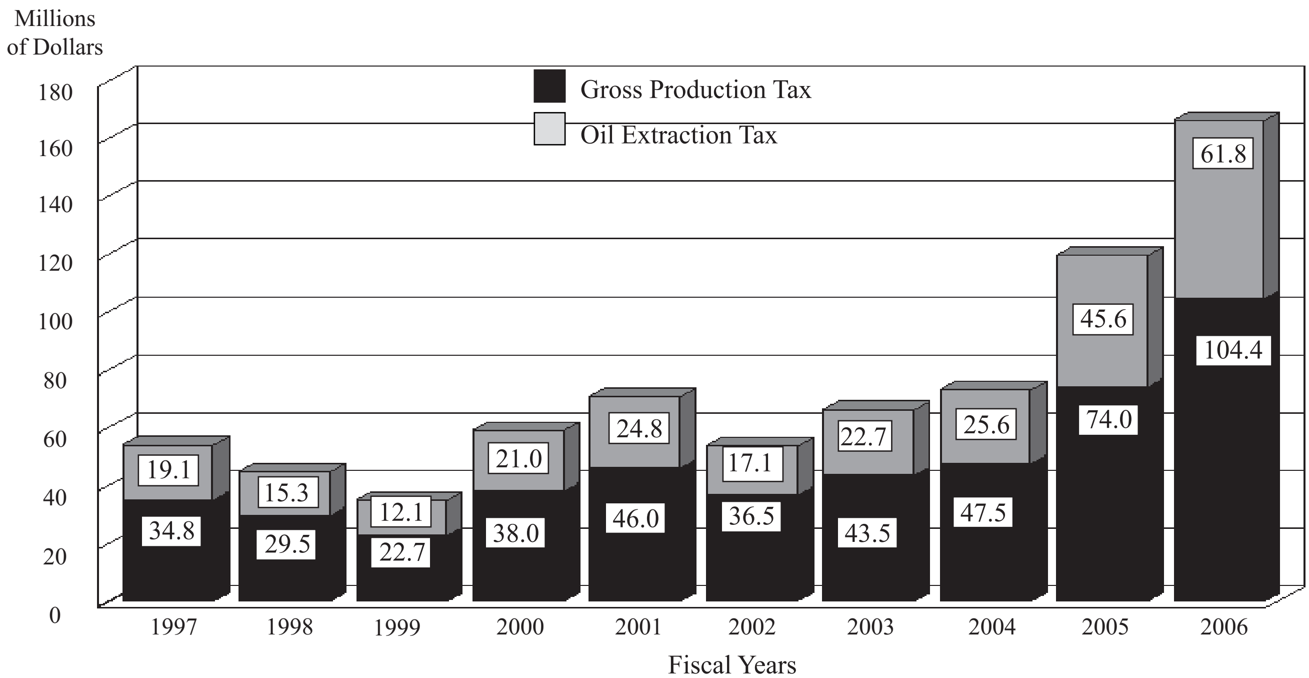
Oil Extraction Tax Revenue

Fiscal Year	Total Net Collections	State General Fund
1996	16,467,484	10,446,662
1997	19,079,936	11,540,993
1998	15,328,212	9,373,218
1999	12,074,588	7,329,895
2000	21,023,977	12,321,301
2001	24,793,997	10,853,065
2002	17,068,846	10,466,737
2003	22,618,069	13,587,968
2004	25,638,914	15,291,025
2005	45,566,628	27,301,469
* 2006	61,767,934	25,225,881
* 2007 est.	121,874,000	-0-

* Oil and Gas Gross Production tax and oil extraction taxes revenues have a statutory cap of $71 million in distributions to the State General Fund during the 2005-07 biennium. That cap was reached in FY 2006.

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections

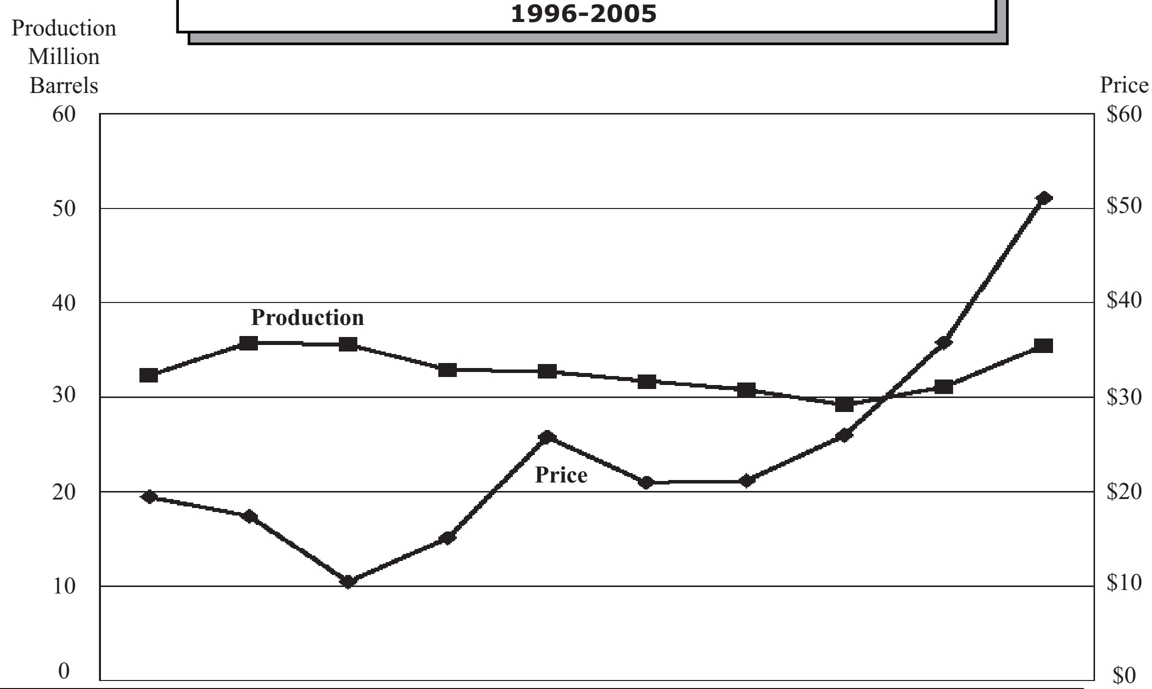
Trends in Oil and Gas Tax Collections



SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections.

North Dakota Oil Statistics

Monthly Production and Tesoro Field Price for Sweet Crude
1996-2005



Calendar Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Price ◆	19.42	17.43	10.47	15.09	25.78	21.00	21.18	25.97	35.83	51.09
Production ■	32.3	35.8	35.6	32.9	32.7	31.7	30.8	29.2	31.1	35.5

Oil Taxes in the 14 Major Oil Producing States

September 2006

State	Severance or Gross Production Tax Rate	Local Ad Valorem Taxes Effective Rate	Misc. Taxes	Total Taxes	Annual Production (Million Barrels) 2000	2002	2004
Alaska [1]	0% to 15.0%	*		0% - 15.0%	355.2	359.3	332.5
California		1%		1%	271.1	258	240
Colorado [7]	2% to 5%	4% to 10%	0.14%	7.14%	18.5	17.7	22.1
Kansas [5]	4.33%	3.67%		8%	34.5	32.7	33.9
Louisiana	3.125% to 12.5%	*		3.125% - 12.5%	105.4	93.5	83.4
Michigan	4% to 6.6%	*		6.6%	7.9	7.2	6.4
Mississippi	0% to 6.0%	*		0% - 6.0%	19.8	18	17.2
Montana [2]	0.76% to 15.06%			0.76% - 15.06%	15.4	16.9	24.7
New Mexico	0% to 3.75%	1.18%	3.34%	4.52% - 8.27%	67.2	67	64.2
NORTH DAKOTA[4]	5.0%, 9.0%, or 11.5%	*		5% - 11.5%	32.7	31	31.2
Oklahoma	0% to 7.0%	*		7%	70.0	66.6	62.5
South Dakota	4.5%		.24%	4.74%	1.2	1.2	1.4
Texas [3]	0% to 4.6%	4% to 5%	½ cent per bbl.	4.0% - 10.% plus ½ cent per bbl.	443.4	412	392.9
Utah [3] [6]	0%, 3.0% or 5.0%	4% to 5%	0.2%	0% - 5%% + ad valorem (4%-5%)	15.6	13.7	14.6
Wyoming	2% to 6.0%	6.7%		8.7% - 12.7%	60.7	54.7	51.6

* Severance (or gross production) tax is in lieu of local property taxes on the oil.

(1) Alaska's nominal rate of 15.0% (12.25% for the first five years for new fields) is reduced for each field by an "economic limit factor" determined by the field's total average daily production and its average daily production per well. Lower production fields have lower rates.

(2) Montana's tax rates vary based on the type of well, when the well was drilled, and whether the taxpayer has a working or non-working interest. A portion of the production tax is allocated back to local governments in lieu of property taxes.

(3) Texas and Utah have property taxes on oil properties but it was not possible for local authorities to estimate an effective percentage rate.

(4) North Dakota, has a gross production tax rate of 5% with no exemptions and oil extraction tax rates of 0.0%, 4.0% and 6.5%.

(5) Kansas has an 8.0% severance tax but allows a credit of up to 3.67% for property taxes paid on oil properties. The severance tax is based on value. Actual rate paid after credit is 4.33%.

(6) Utah's severance tax is 3% on the first $13 per barrel and 5% on any amount over $13 per barrel.

(7) Colorado has a 2% to 5% severance tax but allows 87½% of local property taxes as a credit against the tax. Since property taxes average about 7% this credit generally eliminates the severance tax liability.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Oil and Gas Section, September 2006. Interstate Oil and Gas Compact Commission and the Dept. of Energy.

OIL TAXES IN OTHER STATES

Alaska

Alaska's nominal oil severance tax rate is 15%. Each field, however, has what is termed an "Economic Limit Factor" (ELF) which is determined as follows:

(1-[PEL/TP]) exp ([150,000/TP/Days)] exp [460 X WD)/PEL])

where:

PEL = the monthly production rate at the economic limit;
TP = the total production during the month for which the tax is to be paid;
WD = the total number of well days in the month for which tax is to be paid;
Days = the number of days in the month for which the tax is to be paid; and
exp = exponent.

The ELF is taken times 15% to determine the effective percentage applied to the production value from the field. For example, a field with an average total daily field production of 100,000 barrels and an average daily production of 1,200 barrels per well would have an ELF of $.75^{1.862}$ and an effective severance tax rate of 8.78%.

A minimum tax of 80¢ per barrel on API 27° oil times the ELF can come into play in times when the price is very low. It is adjusted for each degree difference by $.005/bbl.

Incentives. For the first five years of commercial production, the effective rate is determined by taking the ELF times a nominal rate of 12.25% rather than 15%. Currently, the average nominal rate for oil produced on the North Slope is 14.3% with an average ELF of 0.63, yielding an average effective rate of about 8.98%.

Oil reserves are not subject to ad valorem property taxes in Alaska. Effective in 1994, producers are subject to two separate surcharges of 2¢ and 3¢ per barrel. The 2¢ surcharge was suspended in April 1995, when the conservation fund it supports reached $50 million. The 2¢ surcharge will be reimposed when the fund drops below $50 million.

California

California levies ad valorem taxes on real property, including mineral properties. Values are determined and assessed at the county governmental level. The statutory tax rate is 1%, but is subject to increases based on needs to retire voter approved debt. In fiscal year 2000-2001 the rate varied from 1.000 to 1.166 percent. Values are based on an adjusted acquisition value or the current market value, which ever is lower. Adjustments to acquisition value are made for depletion and increases in reserves and added or removed improvements.

There are no statewide severance taxes levied in California. Some local municipalities levee a severance tax. A nominal per barrel fee is collected to fund the Department of Conservation, Division of Oil, Gas & Geothermal Resources. For fiscal year 2006-2007 the fee was $0.061889 per barrel of oil or ten thousand cubic feet of gas.

Colorado

Colorado has a 2% to 5% severance tax but allows 87.5% of local property taxes as a credit against the tax. Since property taxes average about 7%, this credit generally eliminates the severance tax liability.

A conservation tax of 0.14% is administered by the Oil and Gas Conservation Commission.

Kansas

Kansas levies an 8% value-based severance tax but all oil properties receive a 3.67% credit for property taxes paid. The net severance tax rate for all taxable production is 4.33%. "Minimum production" (stripper) wells are exempt but eligibility is based on the depth of the well and the spot price of crude oil. Effective May 1, 2000, wells under 2,000 feet must have five barrels per day of production or less, while deeper wells may have six barrels per day or less, depending on the price. (If the well is using waterflood, the required barrels per day are adjusted to six and seven, respectively.) Stripper status is granted to wells with higher daily production in times of lower price. All tertiary recovery oil is eligible for an exemption.

Kansas also levies a volume-based 5.47% conservation fee administered by the Kansas Corporate Commission.

Incentives. A "new pool" incentive provision exempts oil from newly discovered pools for a period ending two years after the pool was discovered.

A tax exemption is also available for wells that have completed production enhancement projects or were new discoveries using three-dimensional seismic studies. The tax exemption is good for 7 years but is dependent on the price of oil in the previous calendar year.

Louisiana

A 12.5% severance tax is levied in lieu of all other taxes, including ad valorem taxes, on the oil and condensate production. Stripper wells (those with production of 10 barrels per day or less) are taxed at 3.125%, while "incapable" wells (those producing between 10 and 25 barrels per day and having at least a 50% S & W) are taxed at 6.25%. Tertiary recovery wells are exempt from severance tax until the tertiary project reaches payout.

Louisiana also levies an "oil field site restoration fee" of 1¢ per barrel. The fee is reduced to 0.5¢ per barrel for incapable wells and 0.25¢ per barrel for stripper wells.

An "oil spill contingency fee" of 2¢ per barrel is levied on crude oil loaded or off loaded at a marine terminal facility in Louisiana waters. This fee is collected and remitted by the marine terminal operator.

Incentives. Oil production from certified deep wells and horizontal wells is exempt from severance tax for a period of two years or until payout of well costs, whichever occurs first. Oil production from certified wells is exempt for any month in which the gross value is below $20 per barrel.

Michigan

Michigan levies a severance tax of 6.6% on oil and 5.5% on gas based on the gross cash market at the place where production was severed from the soil. Michigan also levies an oil and gas maintenance fee that is used for monitoring wells. This fee changes from year to year and is .34% for fiscal year ending September 30, 2002.

Incentives. Michigan offers a reduced rate of 4% for oil produced from stripper wells and marginal properties.

Mississippi

Mississippi levies a 6% severance tax on the value of production at the mouth of the well. A maintenance tax of 4.4¢ per barrel is administered by the Oil & Gas Board.

Incentives. Beginning April 1, 1994, wells that use an approved Enhanced Oil Recovery method receive a 3% reduced rate.

Montana

Tax rates vary by type of production, by the date the well was drilled, and for working interests and non-working interests. The following is a summary of the tax rates effective January 2, 2000.

	Working Interest	Non-Working Interest
• Primary Recovery Production		
First 12 months	0.76%	15.06%
Pre-1999 Well	12.76%	15.06%
Post-1999 Well	9.26%	15.06%
• Stripper Production[1]		
Pre-1999 Wells		
First 1-10 barrels	5.76%	15.06%
Over 10 barrels	9.26%	15.06%
Stripper well exemption	0.76%	15.06%
• Horizontally Drilled Wells		
First 18 months	0 .76%	15.06%
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%
• Incremental Production [2]		
Secondary Production	8.76%	15.06%
Tertiary Production	6.06%	15.06%
* Horizontally Recompleted		
First 18 months	5.76%	15.06%
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%

[1] Stripper oil is oil produced from any well that produced less than 10 barrels a day for the calendar year immediately preceding the current year.

[2] This is the volume of oil in excess of the production decline curve as approved by the Board of Oil and Gas Conservation.

New Mexico

New Mexico levies four tax types on the value of oil. An intergovernmental production tax credit of 75% of the lesser of the state tax rate or the Native American tax rate on the value of new production severed within the boundaries of Native American tribal land is given to each tax type.

Severance Tax: 3.75% of value of oil. Incentives include 1.875% on qualified enhanced recovery projects, 2.45% on qualified workover wells, and variable rates on stripper properties. A 10-year exemption is given to qualified production restoration projects.

Most of the incentives (well workover, production restoration, and enhanced oil recovery) are tied to posted prices of WTI crude and subject to an exemption sunset based on a statutory price threshold. These incentives have now been subjected to the sunset provisions through April 2005. Similarly, the stripper incentive has been subject to the statutory sunset provisions based on reported prices since 2001 and currently the incentive will not apply until at least April 2005.

Emergency School Tax: 3.15% of value of oil with variable rates on stripper properties.

Conservation Tax: 0.19% of the value of oil.

Ad Valorem Production Tax: Rates vary and are established by producing counties and school districts and are effective each September.

A Tribal Capital Improvements Credit of seven-tenths of one percent is available for products subject to the oil and gas emergency school tax and severed from qualifying wells located on Jicarilla Apache tribal land.

Oklahoma

Oklahoma Gross Production Tax is a severance tax that is in lieu of Ad Valorem Tax and is levied upon the production of oil and natural gas produced in Oklahoma. The tax dates back to 1910 when the rate was 0.5% of the gross value of the product produced. Today the gross production tax rate is a variable rate tax based on the monthly average price of both oil and gas as determined by the Oklahoma Tax Commission.

Oil

The Gross Production Tax rate on oil is as follows:

- If the average price of Oklahoma oil equals or exceeds Seventeen Dollars ($17.00) per barrel, the tax shall be seven percent (7%) of the gross value.
- If the average price of Oklahoma oil is less than Seventeen Dollars ($17.00) but is equal to or exceeds Fourteen Dollars ($14.00) per barrel, then the tax shall be four percent (4%) of the gross value.
- If the average price of Oklahoma oil is less than Fourteen Dollars ($14.00) per barrel, then the tax shall be one percent (1%) of the gross value.

Gas

The Gross Production Tax rate on gas is as follows:

- If the average price of Oklahoma gas equals or exceeds Two Dollars and Ten Cents ($2.10) per mcf, the tax shall be seven percent (7%) of the gross value.
- If the average price of Oklahoma gas is less than Two Dollars and Ten Cents ($2.10) but is equal to or exceeds One Dollar and Seventy Five Cents ($1.75) per mcf, then the tax shall be four percent (4%) of the gross value.
- If the average price of Oklahoma gas is less than One Dollar and Seventy-Five Cents ($1.75) per mcf, then the tax shall be one percent (1%) of the gross value.

Oklahoma also levies a Petroleum Excise Tax on the production of oil and gas equal to ninety-five one thousandths of one percent (.095 of 1%) of the gross value of the product.

Gross Production Incentive Rebates. In an effort to sustain the existing production of oil and gas in Oklahoma and encourage the drilling of new wells, legislation was enacted in 1994 that exempts the Gross Production Tax levied on oil and gas produced from certain wells. The exemption is equal to 6/7ths of the 7% Gross Production Tax and is rebated back to producers of qualified wells. Producers are eligible to file claims for refund on a July through June fiscal year basis.

Wells qualifying for the exemption are as follows:

- Horizontally Drilled Wells,
- The reestablished production of a well that was non-productive for one year,

- Production enhancements such as workovers and recompletions,
- Wells drilled and completed at a depth of 12,500 feet or greater,
- Wells classified as "New Discovery",
- Wells meeting the criteria as being "Economically at Risk", and
- Wells that are drilled and completed based on 3-D seismic technology.

South Dakota

South Dakota levies a 4.5% oil severance tax and a .24% conservation tax. The tax is determined by multiplying the tax rate times the taxable value less an rental or royalty payment applicable to the United States or the State of South Dakota and its political subdivisions. The taxable value is the posted field price per unit at the point of production.

Texas

Texas levies a 4.6% severance tax on the value of oil produced. This tax is reduced to 2.3% or to 0.00% if the oil qualifies for certain tax incentives. Oil properties in Texas are also subject to normal property taxes and to a 3/16 of a cent per barrel "regulatory tax," as well as a regulatory fee of 5/16 of a cent ($0.003125) per barrel for report periods prior to September 2001 and 5/8 of a cent ($0.00625) per barrel for report periods September 2001 and later.

Incentives. Oil produced from Enhanced Oil Recovery (EOR) projects is taxed at 2.3% of the market value. Oil produced from well bores certified by the Texas Railroad Commission as 2-year or 3-year inactive well bores is exempt from the tax for 10 years. Wells that produce an average of 7 or less barrels of oil equivalent (BOE) a day are eligible for an exemption if the operator implements incremental production procedures to increase the production. The production procedure could be primary, secondary, or tertiary methods. If a primary production technique is used, it must involve an expenditure of at least $5,000. The incremental production is taxed at 2.3% for 5 years. The exemption is active as long as the price of oil, according to Comptroller records remains below $25 per barrel (adjusted to 1997 dollars). Baseline production is taxed at 4.6% of market value. The exemption is suspended if the price reaches $25 or above for three consecutive months and will be reinstated if the adjusted price falls below $25 per barrel for three consecutive months. Oil from Co-Production projects is taxed at 2.3% of market value. Oil producd from wells certified under the Texas Experimental Research and Recovery Activity (TERRA) program is exempt from the tax.

Producers are eligible for a production tax credit for crude oil from low producing wells ranging from 100% if the average price is $22 or less to 0% if the average price is more than $30 per barrel. A certified orphan well put back in production is eligible for a 100% exemption from the oil production tax and the oilfield cleanup fee. Producers are eligible for a tax credit for marginal oil wells when they purchase and install enhanced efficiency equipment that reduces energy use by 10 percent.

Utah

Utah levies a severance tax of 3% on the first $13 per barrel and 5% on any amount over $13 per barrel. This tax is in addition to a normal ad valorem tax on the reserves and a 0.2% conservation tax. Stripper wells, defined as wells that produce 20 barrels per day or less, are exempt from the severance tax.

Incentives. Utah allows an annual exemption of $50,000. In addition, the first six months' production from any new development well and the first 12 months' production from any new development well and the first 12 months' production from any new wildcat well are exempt from the tax. All transportation and processing costs can be deducted from value to determine taxable value. There is a 50% tax rate reduction on incremental production achieved from any enhanced recovery project. New workover or recompletion projects receive a 20% tax credit, up to $30,000 per well.

Wyoming

A severance tax is levied at 6% of the value of the oil produced. Stripper wells and tertiary recovery projects are eligible for a reduced tax rate of 4%. For tertiary projects, the reduced rate is good for five years and applies to production over an established "base level."

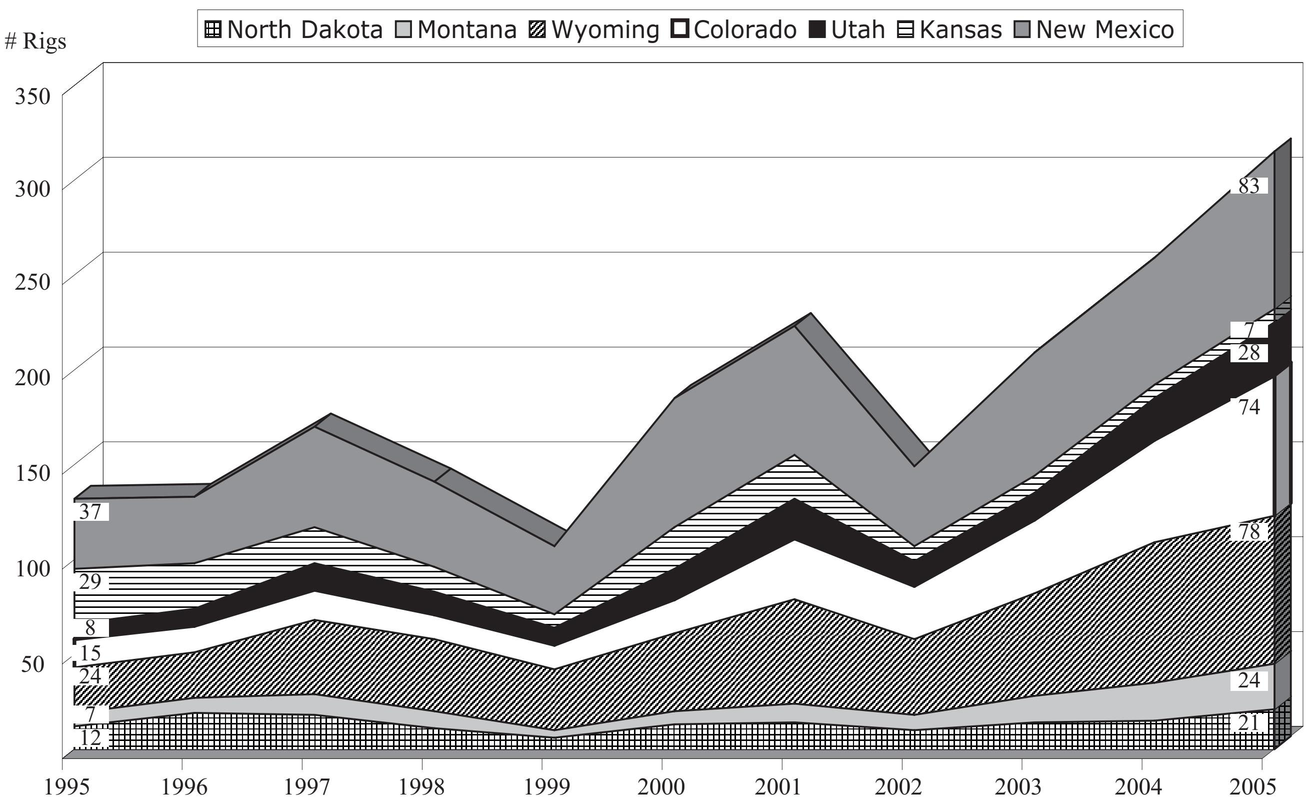
The tertiary project must have been certified after March 31, 2003, and before March 31, 2008, and the reduced tertiary rate is no longer allowed in months when the price per barrel equals or exceeds $27.50.

An ad valorem tax is levied on the same value as that used for severance tax purposes but is collected by the counties and based on the applicable local mill rates. Currently, the ad valorem taxes average about 6.7% of the value of the oil produced.

Incentives. Wyoming grants the reduced rate of 2% on the first 60 barrels per day from new wells for 24 months and all incremental oil from workovers and recompletions. New wells must be drilled between July 1, 1993 and March 31, 2003. Workovers or recompletions must be performed between July 1, 1993 and March 31, 2001. In the case of new oil wells, the incentive is canceled if the average price of oil is equal to or exceeds $22 per barrel for the preceding six (6) month period of time.

Oil produced from previously shut in wells is subject to a reduced severance tax rate of 1.5% for five years from the date of first renewed production. Wells must have had no production for two years prior to January 1, 1995. This incentive is canceled if the average price of oil exceeds $25 per barrel for six straight months.

Western Oil and Gas Producing States Average Annual Rig Activity



SOURCE: Hughes rig count (annual average). These states have similar geographical formations and similar technologies are used in oil production.

COAL TAXES

Coal Severance Tax

CURRENT LAW

Imposition, Rate and Administration

The coal severance tax is imposed on the act of removing coal from the earth. The tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. The coal severance tax applies to all coal severed for sale or industrial purposes, except: coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural processing and sugar beet refining plants in the state or adjacent states.

The tax is applied at a flat rate of 37.5 cents per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund.

A 50% reduction in the 37.5-cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

Counties may grant a partial or complete exemption from the counties' 70% portion of the 37.5-cent tax for coal that is shipped out of state.

Payments of the tax are made monthly by the owner or operator of the mine.

Distribution of Revenue

Revenue from the 37.5-cent per ton severance tax is deposited in the Coal Development Fund and is distributed as follows:

- 30% to a permanent, constitutional trust fund administered by the Board of University and School Lands. The trust fund is used to supply loans to school districts for school construction and loans to cities, counties and school districts impacted by coal development. Investment income from the trust fund is first used to replace uncollectible loans made from the fund, and the balance is deposited in the State General Fund. Seventy percent of the tax collected and deposited in the permanent trust fund must be deposited in the lignite research fund.
- 70% among the coal producing counties according to the amount of coal each county produces. Revenue allotted to each county is further apportioned as follows: 40% to the county general fund; 30% to the cities within the county; and 30% to the school districts. Also, a nonproducing county within 15 miles of a currently active coal mine, and a city or school district in that county and within 15 miles of the mine, are entitled to a share of the coal producing county's severance tax revenue from that particular mine. The amount of coal production on which a county has to share its severance tax revenue with another county during a calendar year is limited to 3,400,000 tons.

Revenue from the additional 2-cent per ton tax is deposited into the Lignite Research Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The legislature first enacted the severance tax on coal mined in the state at a base rate of 50 cents per ton and increasing 1 cent per ton for each three-point increase in the Wholesale Price Index. The revenue distribution formula during the 1975-77 biennium was as follows: 30% to the State General Fund, 30% to a special trust fund administered by the State Land Board, 35% to a special fund for grants to impacted political subdivisions, and 5% to coal producing counties.

1977 Session. The rate was amended to 65 cents per ton and the escalator clause was modified increasing the rate 1 cent per ton for every one-point increase in the Wholesale Price Index (Producer Price Index). This change resulted in an increase in the rate from 56 cents per ton to 65 cents per ton, effective July 1, 1977. The share of revenue allocated to coal producing counties was increased from 5% to 20%, while the portion allocated to the trust fund was decreased from 30% to 15%. The State General Fund share remained 30% and the allocation for grants to impacted political subdivisions remained 35%.

1979 Session. The base rate became 85 cents per ton and the escalator was amended to provide for a 1-cent increase for every four-point increase in the Wholesale Price Index (Producer Price Index). This modification resulted in a reduction in the coal severance tax from 97 cents per ton to 85 cents per ton.

1981 Session. Exemptions were created for coal used by the state or any of its political subdivisions and for coal used for heating buildings within the state. As a result, coal used for heating purposes became subject to sales tax.

1983 Session. Filing requirements for coal mine owners or operators were changed from a quarterly to a monthly basis.

1985 Session. An exemption was created for coal used in agricultural processing or sugar beet refining plants within North Dakota or in adjacent states. A 50% reduction in the tax rate was created for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

1987 Session. The base rate was reduced to 75 cents per ton and the escalator clause was eliminated. Prior to the change, the escalator had resulted in a rate of $1.04 per ton. In addition, for the period July 1, 1987, through June 30, 1989, the legislature enacted an additional tax of 2 cents per ton and dedicated the revenue for lignite research. Distribution of the 75 cent tax was changed as follows: the State General Fund portion was increased from 30% to 50%, the counties' share was increased from 20% to 35%, the trust fund allocation remained at 15%, and the 35% share previously allocated for grants to impacted political subdivisions was eliminated.

1989 Session. The 2-cent per ton tax for lignite research was made a permanent tax.

1990 Constitutional Amendment. Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow up to 50% of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing.

1991 Session. The legislature provided for 50% of the taxes collected and deposited in the trust fund to be appropriated by the legislature for lignite research, development and marketing, in accordance with the 1990 constitutional amendment.

1993 Session. The legislature limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. Loans for school construction was added to uses of the trust fund. Coal which is shipped out of state after June 30, 1995 and before July 1, 2000 was made exempt from the state's 50% portion; counties may grant a partial or complete exemption from the county's 35% portion.

1994 Constitutional Amendment. Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow appropriations from the trust fund for clean coal demonstration projects approved by the North Dakota Industrial Commission and the United States Department of Energy. [The Department of Energy did not approve a clean coal demonstration project in North Dakota.]

1995 Session. The legislature increased, from 50% to 70%, the amount of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing.

1997 Session. Effective July 1, 1999, the legislature exempted coal burned in coal-fired boilers within North Dakota or adjacent states in which the generation station has a total capacity of not more than 210 megawatts from 50% of the 75-cent coal severance tax. A city, school district, or the county commissioners of the county in which the coal is mined may grant a partial or complete exemption from their share of severance tax revenues. A political subdivision that has granted an exemption from all or part of its share of severance tax revenues must be omitted from the allocation or have its allocation adjusted to reflect the reduction it has granted.

1999 Session. The legislature repealed the exemption for coal burned in small boilers, effective July 1, 2003.

2001 Session. The legislature reduced the 75-cent tax to 37.5 cents per ton and repealed the exemption for coal burned in small boilers effective July 1, 2001. Distribution of the 37.5-cent tax was changed to allocate 30 percent to the coal development trust fund and 70 percent to the counties. A county may grant a full or partial exemption from its 70 percent share for coal shipped out of state.

TAXATION OF COAL IN NEIGHBORING STATES

Montana

Montana levies the following taxes on surface mined coal:

- Coal Gross Proceeds Tax

  A statewide 5% yearly flat tax is imposed on coal gross proceeds. The gross proceeds of coal is determined by multiplying the number of tons produced by the contract sales price. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation. This tax is collected at the county level.

- Coal Severance Tax

  Imposed on all coal mined in the state. Producers of over 50,000 tons of coal per year pay a quarterly severance tax on all production in excess of 20,000 tons. Producers of under 50,000 tons per year are exempt from the tax.

Tax rates depend on the heat content (BTU's per pound) of the coal and the method of extraction. The value of coal to which the severance tax is applied is the contract sales price. Current tax rates:

Surface Mined Coal

Under 7,000 BTU's	10% of value
7,000 BTU's and over	15% of value

<u>Incentives.</u> Persons producing less than 50,000 tons of coal in a year are exempt from severance tax. Persons producing more than 50,000 tons of coal in a year are exempt from severance tax on the first 20,000 tons produced. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation under the gross proceeds tax.

Wyoming

Wyoming levies the following taxes on surface mined coal:

- A severance tax of 7% of the mine mouth value to a maximum of $.60 per ton. This is a lower base than is used in Montana because Wyoming allows deductions for costs, such as crushing and transportation to market, that occur after the coal has been brought to the mouth of the mine.
- A “gross products tax.” It is based on the same taxable value as that used for severance tax purposes but is collected by the counties and based on applicable local mill rates. Average county mill rates for tax year 2005 range from 59.163 mills to 74.458 mills.

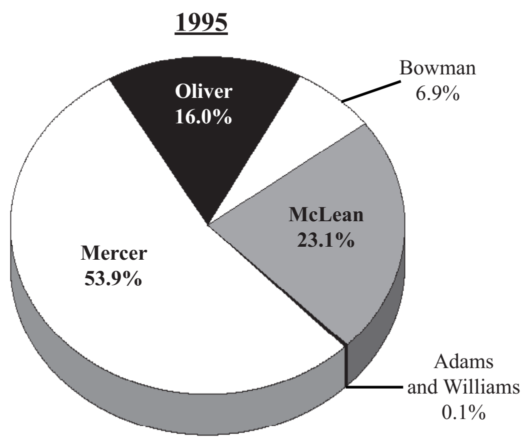
<u>Incentives.</u> A maximum severance tax rate of 60 cents per ton applies on qualifying coal sales agreements. The cap on coal severance tax only applies to a few coal contracts, because most producers pay less than 60 cents at surface coal mines.

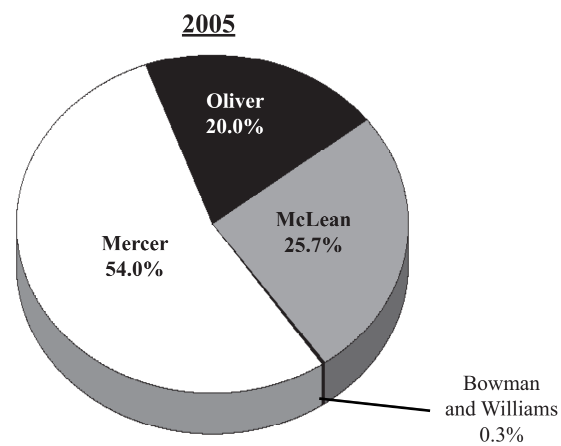
Coal Severance Tax Collections and Distribution

Fiscal Year	Total Collections	State General Fund	Land Board Trust Fund	Counties	Lignite Research
1996	22,854,955	11,129,554	3,338,866	7,790,688	595,847
1997	22,915,612	11,160,152	3,348,046	7,812,107	595,307
1998	22,725,858	11,865,647	3,320,946	7,748,874	590,390
1999	23,582,059	11,482,232	3,446,153	8,041,024	612,649
2000	23,572,353	11,206,459	3,521,932	8,217,841	626,121
2001	23,095,487	10,967,395	3,454,203	8,059,808	614,081
2002	12,850,893	775,794	3,439,110	8,024,591	611,397
2003	12,202,063	0	3,475,271	8,108,966	617,826
2004	12,450,642	0	3,546,069	8,274,161	630,412
2005	11,458,156	0	3,263,399	7,614,597	580,160
2006	12,014,618	0	3,421,885	7,984,398	608,335
2007 est.	12,000,000	0	3,418,000	7,974,000	608,000

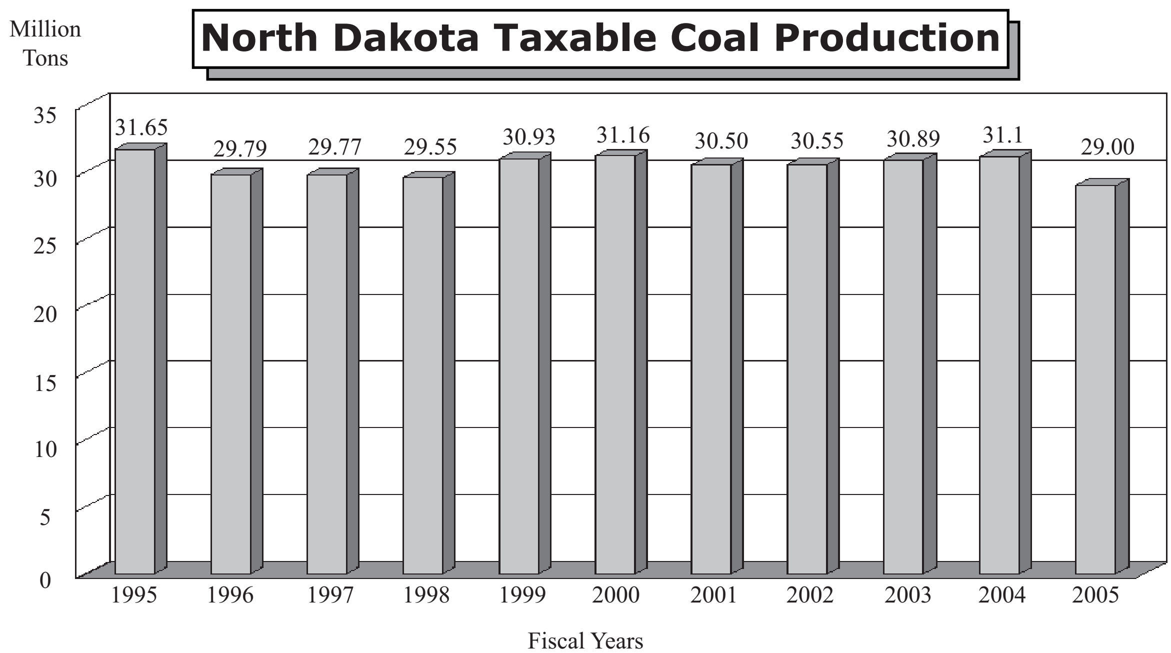
SOURCE: North Dakota Office of State Tax Commissioner and State Treasurer's Office

County Breakdown - Coal Severance Tax Revenue
Fiscal Years 1995 and 2005





North Dakota Taxable Coal Production



Coal Conversion Tax

CURRENT LAW

Imposition, Rate and Administration

The coal conversion facilities privilege tax is imposed on the operator of a coal conversion facility for the privilege of producing electricity or other products from coal conversion plants. A coal conversion facility is defined as (1) an electrical generating plant which has at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, (2) a plant other than an electrical generating plant which processes or converts coal and uses or is designed to use over 500,000 tons of coal per year, or (3) a coal beneficiation plant.

The coal conversion tax is in lieu of property taxes on the plant itself, while the land on which the plant is located remains subject to property tax. The tax is paid monthly.

Electrical Generating Plants. Electrical generating plants, as defined above, are subject to two separate levies. One levy is .65 mill times 60% of installed capacity times the number of hours in the taxable period and the other levy is .25 mill per kwh of electricity produced for sale. Installed capacity means the rating shown on the nameplate assigned to the turbine of the power unit.

Other Coal Conversion Plants. A ***coal gasification plant*** is subject to a monthly tax measured by 13.5 cents per thousand cubic feet of gas produced for sale or 4.1% of gross receipts, whichever is greater. ***Plants converting coal to products other than gas*** are taxed at 4.1% of gross receipts. The tax rate for a ***coal beneficiation plant*** is 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater.

Exemptions

Exemptions to the coal conversion tax are as follows:

- Synthetic natural gas produced in excess of 110 million cubic feet per day.
- Income from byproducts of a coal gasification plant to a maximum of 20% of gross receipts.
- Revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas.
- Beneficiated coal produced in excess of 80% of plant design capacity.
- A new coal-burning electrical generating plant is exempt from the State General Fund portion of both levies for five years. The county may grant an exemption for up to five years from the county's 15% share of the levy on installed capacity.
- All new coal conversion plants other than electrical generating plants are exempt from the State General Fund portion (85%) of the tax for five years. The county may grant a partial or complete exemption from the county's 15% share for up to five years.

Distribution of Revenue

Electrical Generating Plants. The revenue from the .25 mill levy on production is deposited in the State General Fund. The revenue from the .65 mill levy on installed capacity is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

Other Coal Conversion Plants. Through December 31, 2009, the first $41,666.67 of revenue each month is deposited in the State General Fund. The remaining revenue is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The legislature enacted the privilege tax on coal conversion facilities. The conversion tax on electrical generating plants was levied at ¼ mill per kwh produced for sale. The tax on all other coal conversion facilities was levied at 2½% of gross receipts or 10 cents per mcf, whichever was greater. The formula for allocation of conversion tax revenue was dependent on the amount of revenue generated from each county. As revenue from a county increased, the percentage distributed to the State General Fund increased and the percentage distributed to the county decreased. The county share was apportioned as follows: 40% to the county, 15% to cities, and 45% to school districts.

1977 Session. The revenue distribution formula was changed to 65% to the State General Fund and 35% to the county. The allocation of the county share was changed to 40% to the county, 30% to cities, and 30% to school districts.

1983 Session. An additional ¼ mill per kwh tax rate for electrical plants was enacted. This change brought the tax on electrical generating plants to ½ mill per kwh. The revenue from the ¼ mill increase was dedicated entirely to the State General Fund. In addition, the legislature changed filing requirements to a monthly rather than quarterly basis.

1985 Session. The tax rate on coal gasification plants constructed before July 1, 1985 was changed from 10 cents to 15 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. The definition of gross receipts was changed to exclude any financial assistance from the federal government. A five-year exemption from part or all of the tax was added for coal conversion facilities, other than electrical generating plants, if the facility was constructed after July 1, 1985.

1987 Session. The tax rate on electrical generating plants was changed from two separate ¼ mill levies based on production to one ¼ mill levy on 60% of installed capacity times the number of hours in the taxable period and one ¼ mill levy on production. The tax rate on all coal gasification plants was reduced to 7 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. Exemptions were enacted for synthetic natural gas produced in excess of 110 million cubic feet per day and for receipts from byproducts of a coal gasification plant to a maximum of 20% of gross receipts. Also, the five-year exemption for coal conversion facilities other than electrical generating plants was made effective from the date of first taxable production and the reference to date of construction was eliminated.

1989 Session. A coal beneficiation plant was defined as a coal conversion plant and subject to a tax of 20 cents per ton or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of plant design capacity.

1991 Session. A five-year exemption from part or all of the tax was created for new coal-burning, electrical generating plants.

1997 Session. The legislature increased the exemption for income from by-products of a coal gasification plant from 20% to 35% from January 1, 1997, through December 31, 2000. The exemption reverts to 20% after December 31, 2000. The legislature exempted revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas, retroactive to January 1, 1997.

2001 Session. The legislature amended the definition of a coal conversion facility to include an electrical generating plant that has at least one single unit with a capacity of 10,000 kilowatts or more. The tax rate on installed capacity increased to .65 mill times 60 percent of installed capacity times the number of hours in the taxable period. Distribution of the tax on installed capacity changed to allocate 85 percent to the State General Fund and 15 percent to the county in which the plant is located. The tax rate on synthetic natural gas increased to $.135 per 1,000 cubic feet. The tax rate on gross receipts changed from 2.5 percent to 4.1 percent. The first $41,666.67 each month from a coal conversion facility other than an electrical generating plant is deposited in the State General Fund. The remainder is allocated 85 percent to the State General Fund and 15 percent to the county in which the plant is located. The legislature provided that the allocation of coal conversion tax to each county may not be less in each calendar year than it was in the immediately preceding calendar year.

Any county which has a coal conversion facility that was not a coal conversion facility before January 1, 2002, had to receive for calendar year 2002 at least as much as that facility paid in property taxes for taxable year 2001. For subsequent years, that county must receive no less than it received in the preceding calendar year. All amounts received from that facility must be allocated in the same manner property taxes for the facility were allocated for taxable year 2001.

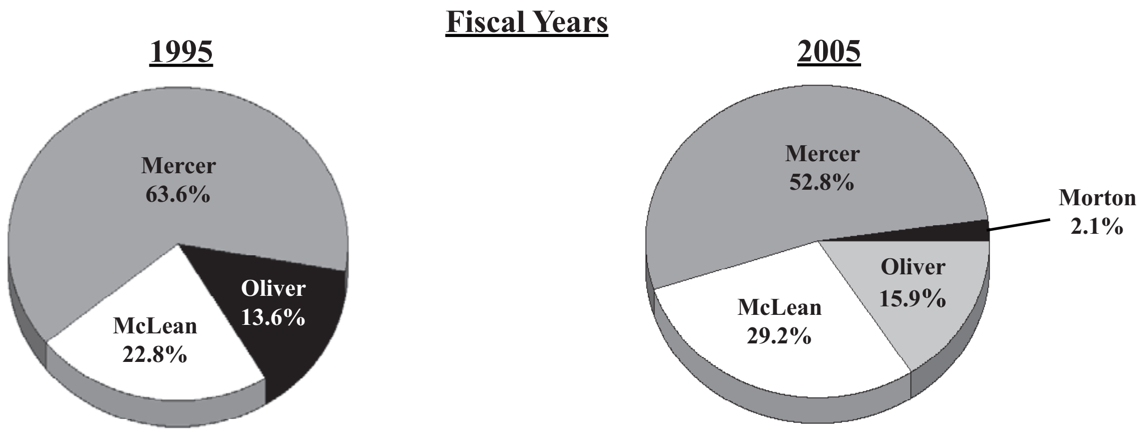
2005 Session. The legislature enacted the Coal Conversion Facility Tax Reduction Act that provided a five-year exemption for electrical generating plants that complete repowering. "Repowering" was defined as an investment of more than $200 million or $1 million per megawatt of installed nameplate capacity, whichever is less, in an existing power plant that modifies or replaces the process used for converting lignite coal from its natural form into electric power. In February 2006 the South Central Judicial District Court found the Coal Conversion Facility Tax Reduction Act unconstitutional.

Coal Conversion Tax Collections and Distribution

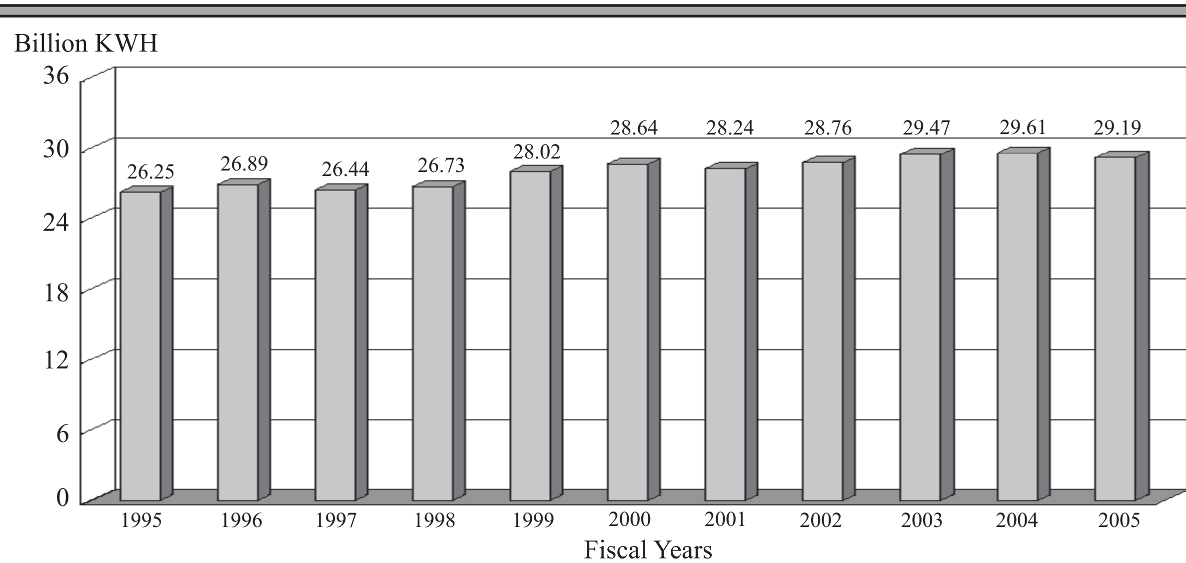
Fiscal Year	Total Collections	Distributed to State General Fund	Distributed to Counties
1996	15,053,253	12,170,245	2,883,008
1997	14,726,047	11,894,536	2,831,511
1998	14,531,835	11,790,623	2,741,212
1999	14,692,468	11,996,168	2,696,300
2000	15,387,068	12,490,737	2,896,331
2001	16,443,620	13,181,432	3,262,188
2002	25,349,890	22,552,708	2,797,183
2003	27,246,539	24,342,549	2,903,990
2004	28,106,144	24,432,816	3,673,328
2005	26,264,860	22,764,015	3,500,845
2006	27,784,633	24,042,047	3,742,586
2007 est.	28,292,000	24,480,000	3,812,000

SOURCE: North Dakota Office of State Tax Commissioner

County Breakdown - Kilowatt Hours Produced Subject to Coal Conversion Tax



Kilowatt Hours (KWH) Produced Subject to Coal Conversion Tax



CURRENT LAW

LOCALLY ASSESSED PROPERTY

Imposition, Administration and Distribution of Revenue

All real property, unless specifically exempted, is subject to a property tax. A mobile home used as a residence or business is subject to the tax if it is 27 or more feet long or is attached to utility services.

The property tax is determined by multiplying the mill rate times the taxable value of real property.

The county determines and collects the tax and distributes the revenue to the county, cities, townships, school districts, and other taxing districts. The tax is due January 1 of each year following the year of assessment and is payable without penalty until March 1. A 5% discount is allowed for taxes paid in full before February 15.

Mill Rates

Local mill rates are established to meet the revenue needs of the taxing district. Each taxing district prepares a proposed budget to determine the money needed to provide services. After public hearings, the elected governing bodies adopt final budgets and certify tax levies (total property taxes) to the county auditor. The tax levy may not exceed the legal maximum. The only increases allowed without voter or legislative approval are for property added to the tax rolls. To determine the mill rate, the county auditor divides the total property taxes to be collected for each taxing district by the district's total taxable value.

Taxable Value

Residential. The determination of taxable value begins with the true and full value or market value of the property. The true and full value of residential property is usually established by the local assessor. The assessed value is 50% of the true and full value and the taxable value is 9% of the assessed value.

Commercial. The true and full value of most commercial property is established by the local assessor. The true and full value of railroad, public utility, and airline property is centrally determined by the State Board of Equalization (see Centrally Assessed Property on page 71). The assessed value is 50% of the true and full value and the taxable value is 10% of the assessed value.

Agricultural. The true and full value of agricultural property is based on productivity as established through computations made by North Dakota State University of the capitalized average annual gross return of the land. This information is forwarded to the State Tax Commissioner who certifies to the county directors of tax equalization the estimated average true and full agricultural value of farm and grazing land in each county.

The county tax directors use the certified estimates of the county average agricultural values to determine the average value of agricultural lands within each assessment district in the county. This estimate is based on the relative value of lands for each assessment district compared to the county average. In determining the relative value, the county tax directors are to use soil type and soil classification data, wherever possible. In turn, the average agricultural value of agricultural lands within each assessment district is used by each local assessor to determine the agricultural value of each assessment parcel within the local district's jurisdiction.

The assessed value of agricultural land is 50% of the true and full value and the taxable value is 10% of the assessed value.

Equalization Process. Equalization is a method required by law to adjust assessments so that they are consistent with market value or, in the case of agricultural land, the value of agricultural productivity. Local assessments are reviewed and equalized by either the Township Board of Equalization on the second Monday in April or the City Board of Equalization on the second Tuesday in April. The Board of County Commissioners meets within the first ten days of June to equalize among assessment districts within the county. The State Board of Equalization has the responsibility to equalize among counties and assessment districts in a county and meets the second Tuesday in August.

Exemptions and Credits

Property tax exemptions and credits are listed below according to type of property.

Residential Property:

- Personal property is exempt.
- A property tax exemption of up to five years is available for the value added by rehabilitation or remodeling to property which is 25 years old or older if the city or county approves the exemption.
- Homes owned and occupied by persons who are blind or disabled may be eligible for exemption or partial exemption from property taxes, subject to annual review.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- Qualifying new single-family residences and condominiums may be exempt for two years, provided the exemption is approved by the city or county. The exemption is limited to a maximum of $75,000 of the structure's value.
- A single-family residence located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.
- Homeowners who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age may be entitled to certain property tax credits under the homestead property tax credit program. Qualifications include an annual income of $14,500 or less (including Social Security and pensions) and assets of $50,000 or less (excluding the first $100,000 value of the homestead). A qualifying homeowner may receive a credit to reduce the property's taxable value by up to $3,038. Applications are filed with the local assessor.
  - * In addition, these homeowners may qualify for a special assessment credit which becomes a lien on the real property and must be repaid when the property is transferred.
- Renters who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age and who have an annual income from all sources of $14,500 or less may be entitled to rent refunds under the homestead property tax credit program. Those who qualify may receive rent refunds of up to $240 if 20% of the rent they pay exceeds 4% of their income. Renters apply to the Office of State Tax Commissioner for this refund.

Commercial Property:

- A property tax exemption of up to five years and in certain cases up to ten years is available to a qualifying new or expanding business (see page 70, New Business Exemption).
- Personal property is exempt.
- An exemption of up to five years is available for the value added to property by rehabilitation or remodeling if the city or county approves the exemption.
- The portion of a building used primarily for licensed day care is exempt if the city or county approves the exemption.
- Fixtures, buildings, and improvements used primarily as an adult care center are exempt upon approval by the city or county.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- A cooperative or nonprofit organization that provides water to its members and customers may be eligible for an exemption for its buildings and structures.
- A public parking structure is eligible for an exemption.
- A pollution control improvement is exempt if the city or county approves the exemption.
- A commercial building located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.

Agricultural Property:

- Personal property is exempt.
- Farm structures are exempt if located on agricultural land and used in operations normally associated with farming and ranching. Farm residences are exempt if located on 10 acres or more of agricultural land, if occupied or used by a farmer who normally devotes the major portion of time to farming operations, and if the farmer receives not less than 50% of annual net income from these operations in any one of the preceding three years. The residence is not eligible if the farmer has received more than $40,000 of non-farm income in each of the three preceding years. The income requirements apply to the combined income of the farmer and spouse.
- A qualifying wetland is exempt if the owner signs an agreement to keep the property as wetland. If the land is removed from wetland status, the landowner must repay up to ten years of the taxes forgiven. This exemption is available if funds are available for the state to reimburse the political subdivisions for all revenue losses.
- State-owned land leased for grazing or pasture purposes is exempt. State-owned land leased for growing crops is exempt if payments in lieu of property taxes are made by the state.

Other Property:

- Property owned by a governmental unit is exempt.
- Property owned and used exclusively for religious or charitable purposes is exempt. Property owned by a religious organization may retain its exemption if the property is rented to a tax-exempt organization and no profit is realized from the rent.
- Property owned by a lodge, club, association or like organization is exempt if the organization is nonprofit, if the property is used for meeting and for conducting business or ceremony, and if food or alcoholic beverages are not sold for profit on the premises. This property, however, is subject to taxation by cities for the cost of fire protection services.
- All property belonging to an educational institution and not used for profit is exempt.
- Property owned by a nonprofit corporation and used for promoting athletic and educational needs at a state educational institution is exempt.
- All land used exclusively for burying grounds or cemeteries is exempt.
- Land belonging to a military organization and used as a public park or monument ground and not for gain is exempt.
- Minerals in place in the earth are exempt if, at the time of extraction, they are subject to either the oil and gas gross production tax or the coal severance tax.
- Property of Native Americans, where the title cannot be transferred without the consent of the U.S. Secretary of the Interior, is exempt.
- Forested land may be eligible for a reduced property tax rate of 50 cents per acre.
- All property, including any possessory interest therein, relating to waterworks, mains, water distribution systems, sewage systems, and facilities for the collection, treatment, purification and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision is exempt.
- All property, including any possessory interest therein, belonging to the state or an agency or institution of the state leased to a private entity pursuant to N.D.C.C. § 54-01-02, which property is operated by, or providing services to, the state or its citizens is exempt.
- Property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.

New Business Exemption

Parameters. Any new or expanding business project may be granted a property tax exemption for up to five years. Two extensions are available:

- Agricultural processors may be granted a partial or full exemption for up to five additional years.
- A project which is located in property leased from a governmental entity qualifies for an exemption for up to five additional years upon annual application by the project operator.

In addition to or instead of an exemption, local governments and any project operator may negotiate payments in lieu of property tax for a period of up to 20 years from the date project operations begin.

Qualifications. A qualifying "project" is any new or expanded revenue-producing enterprise. All buildings, structures or improvements used in or necessary to the operation of the project qualify. The structure may be the project's building or the project's quarters within a larger building. An exemption may not be granted for land. A project is not eligible for an exemption if the project received a tax exemption under tax increment financing or if the governing body determines the exemption fosters unfair competition or endangers existing business.

Application Procedures. The project operator applies to the city governing body if the project is located within city boundaries. If the project is located outside city boundaries, application is made to the county commission.

- The application must be made and approved before construction of a new structure begins. If the project will occupy an existing structure, application must be made and approved before the structure is occupied.
- If the city or county governing body determines there are local competitors, the project operator must publish two notices in the official newspaper of the city or county at least one week apart, and the last notice must be published at least 15 days, but not more than 30 days, before the city or county considers the application. For example, notices published one week apart on May 1 and May 8 are appropriate for a hearing scheduled anytime between May 23 and June 7.
- The city or county governing body holds a public hearing on the application.
- After the public hearing, the city or county governing body acts on the application.

CENTRALLY ASSESSED PROPERTY

Assessment Procedures

Assessments for property tax purposes of railroads, investor-owned public utilities, and airlines are determined by the State Board of Equalization. The assessed value of centrally assessed property is 50% of the true and full value and the taxable value is 10% of the assessed value for all centrally assessed property except wind turbine electric generation units with a nameplate generation capacity of 100 kilowatts or more. Taxable value is 1.5 percent for units for which a purchased power agreement was executed between April 30, 2005 and January 1, 2006, and construction was begun between April 30, 2005, and July 1, 2006. Taxable value is 3 percent for all other units on which construction is completed before January 1, 2011. The taxable value of centrally assessed property is subject to property taxes as discussed below for each type of property.

Steps in the assessment process are as follows:

1. The company must file an annual report with the State Tax Commissioner by May 1.
2. The State Tax Commissioner prepares a tentative assessment by July 15.
3. Notice of tentative assessment is sent to the company ten days prior to the State Board of Equalization meeting.
4. The State Board of Equalization meets the first Tuesday in August at the Office of State Tax Commissioner to receive testimony on the value of centrally assessed property and to make the assessments.
5. Following the action of the State Board of Equalization, the State Tax Commissioner certifies the assessments to the counties.

Airlines

A regularly scheduled airline serving North Dakota cities pays a property tax computed by applying the average of all mill levies in the municipalities served by regularly scheduled airlines against the taxable valuation of an airline's operating real property located in North Dakota.

The Tax Commissioner collects the tax and the State Treasurer distributes the revenue to the municipalities in which the airline operates. The revenue is used exclusively for airport purposes.

Public Utilities

Centrally assessed public utilities are investor-owned power, gas and pipeline companies. The tax for telecommunications carriers is discussed below. The taxable value of a utility's North Dakota real and personal operating property is subject to the mill levies of the taxing districts in which the property is located.

The tax is collected by the county and distributed to the taxing districts within the county.

A 10-year exemption is allowed for pipelines carrying CO_2 for use in enhanced recovery of oil or natural gas. The state reimburses political subdivisions for the lost tax revenue.

A transmission line of 230 kilovolts or larger, and its associated transmission substations, initially placed in service or substantially expanded on or after October 1, 2002, is exempt from property taxes for the first taxable year. Subsequent years' taxes must be reduced by 75 percent for the second year, 50 percent for the third year, and 25 percent for the fourth year. After the fourth year, the transmission line and substations are exempt from property taxes and are subject to a tax of $300 per mile.

Railroads

Railroad operating real property is taxed at the mill rates of the taxing districts in which the property of the railroad is located. The tax is collected by the county and distributed to the various taxing districts within the county.

TAXES PAID IN LIEU OF PROPERTY TAXES

Telecommunications Carriers

Telecommunications carriers are assessed a tax of 2½% of their adjusted gross receipts by the State Board of Equalization. The gross receipts tax is paid annually to the Tax Commissioner. The state allocates $8.4 million annually to the counties for distribution to political subdivisions. Revenue in excess of $8.4 million is deposited in the state general fund.

Rural Electric Cooperatives

Rural electric generation, transmission and distribution cooperatives pay a gross receipts tax instead of a property tax on all property except land, which is assessed locally. The gross receipts tax is 1% during the first five years of business and 2% thereafter. The tax is paid annually to the county. The revenue is apportioned to each county according to the miles of lines the cooperative has in the county compared to its total miles of line and is distributed to the taxing districts within the county.

Rural electric cooperatives which have at least one unit with a generating capacity of 100,000 kilowatts or more pay a transmission line tax of $225 per mile on transmission lines of 230 kilovolts or more. This tax is collected annually and the revenue is apportioned among the counties in which the lines are located according to the number of miles in each county. The revenue goes to the county general fund. The tax on a transmission line of 230 kilovolts or larger initially placed in service or substantially expanded on or after October 1, 2002, is $300 per mile. The tax does not apply for the first taxable year. The second year's taxes must be reduced by 75 percent, the third year's taxes by 50 percent, and the fourth year's taxes by 25 percent.

Coal Conversion Facilities

The coal conversion tax is in lieu of property taxes on investor-owned or cooperative electrical generating plants which have at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, other coal conversion facilities consuming 500,000 tons or more of coal per year, or coal beneficiation plants. (See page 65.)

Tourism or Concession License Fee

A license fee in lieu of property taxes is payable for state-owned property leased from the Superintendent of the State Historical Board or the Director of State Parks and Recreation and used for tourism or concession purposes. The fee is set by the superintendent or by the director and is at least $1, but not more than 1% of the tenant's gross receipts. The tenant pays the license fee to the county treasurer, who deposits the payment into the county general fund.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1981. Prior to the 1981 Legislative Session, the standard of value was market value, but property was assessed at a fraction of its market value. By law, all real property was in one class, but a de facto classification system existed. Limitations were imposed on the number of mills which could be levied.

1981 Session. The legislature changed the procedures for determining the value of property for tax purposes to include methods of establishing the true and full value, assessed value, and taxable value of property, according to a new classification system. Limits were placed on the dollar amount of change in the levy rather than on the number of mills which could be levied. The new law allowed up to a 7% increase in the amount of dollars levied. Also, the maximum income to qualify for the homestead credit was increased from $9,000 to $10,000.

1983 Session. The legislature allowed for a 4% increase in the amount of dollars levied. Cities and counties were authorized to give two-year exemptions for new single family or town house property. The new business exemption's cost and sales limitations were increased from $100 million to $150 million.

1985 Session. The legislature allowed for a 3% increase in the amount of dollars levied. An exemption for qualifying wetlands was enacted, effective for tax years beginning after December 31, 1986. The maximum income to qualify for the homestead credit was increased from $10,000 to $12,000.

1987 Session. The legislature allowed for a 5% increase in the amount of dollars levied. The legislature removed limitations on the type of business qualifying for the new business exemption. Previously, the exemption was limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

1989 Session. The legislature allowed for a 5% increase in the amount of dollars levied. An exemption was added for day care in commercial property and the exemption for religious organizations was extended to include property rented to a tax-exempt organization. The income limitation to qualify for the homestead property tax credit program was increased from $12,000 to $13,000 per year. Changes to the new business exemption law included the following: removing the requirement that the State Board of Equalization approve the property tax exemption; excepting property in cities of 3,000 population or less from the vacancy requirement; excluding projects exempt under tax increment financing; and allowing the property tax exemption to be extended up to ten years for projects in property leased from a governmental entity.

1991 Session. The legislature allowed for a 4% increase in the amount of dollars levied. The property tax exemption was broadened to include expanding businesses and was decoupled from the income tax exemption; the vacancy requirement to use existing buildings was removed; and a partial exemption for the sixth through tenth years was allowed for projects which produce or manufacture a product from agricultural commodities grown in North Dakota. A 10-year exemption was created for pipelines carrying CO_2 to an enhanced recovery project in a North Dakota oil field. A license fee in lieu of property taxes was adopted for certain state-owned property leased for tourism or concession purposes. Changes to the property tax on forested land included a 50-cent per acre rate and several administrative changes.

1993 Session. The legislature set the maximum levy increase at 3% for taxes payable in 1994 and 2% for 1995. Cities and counties were permitted to exempt pollution control improvements. An exemption was granted to state-owned land leased for grazing or pasture purposes. State-owned land leased for growing crops was exempted if payments in lieu of property taxes are made by the state. The income limitation to qualify for the homestead property tax credit program was increased from $13,000 to $13,500 per year beginning with the 1995 tax year.

1994 Special Session. The legislature removed project size limitations as qualifications for the new or expanding business tax exemption. The change allowed large projects to qualify. The extended exemption for agricultural processors was changed from a partial exemption to either a partial or complete exemption. Legislators enabled a local government and any project operator to negotiate in lieu of property tax payments for a period of up to 20 years.

1995 Session. The legislature allowed for a levy increase of 2% for taxes payable in 1996 and 1997. The only increase allowed after 1998 without voter or legislative approval is property added to the tax rolls. Railroad personal property was exempted from property taxes. Before a city or county grants a new business exemption or payments in lieu of taxes, the affected school districts and townships must be consulted.

1997 Session. The legislature allowed for a 2% increase in the amount levied to match federal funds. The state water commission was to make payments in lieu of taxes for land acquired for the Devils Lake project. For agricultural land formula used by NDSU, the legislature extended the agricultural production data to a 10-year period for the 2000 assessment. A 50 percent expense allowance for agricultural revenue from irrigated cropland was made permanent. The temporary requirement that school districts and townships must be consulted before granting a new business property tax incentive expired. The income requirement for the farm residence exemption was defined as more than 50 percent from farming activities in any one of the preceding three years. Allowable nonfarm income increased to $40,000 during each of the preceding three years. Park model trailer owners were required to pay the motor vehicle department a fee of $20 per year to qualify for exemption from taxation as a mobile home for tax years 1997 and 1998. The maximum general tax levy for fire protection districts was increased from ten to thirteen mills. The state engineer was given authority to take remedies when man-made objects situated in, on the bed of, or adjacent to a navigable lake are, or are imminently likely to be, a menace to life or property or public health or safety. The state engineer may assess costs of action against any property of the person responsible. The agricultural property definition for property platted after March 30, 1981, was changed. A pipeline and associated equipment, not including land, constructed after 1996 for the transportation or storage of CO_2 for use in enhanced recovery of oil or natural gas is tax exempt during construction and the first ten full taxable years.

1999 Session.
- Made confidential income and expense statements provided by commercial property owners to assessors.
- Allowed an abatement of property tax for damage to a building, mobile home, structure, or other improvement caused by natural disaster.
- Increased the income limitation for the homeowners' homestead credit and renters' refund from $13,500 to $14,000.

- Made permanent the $20 permit fee for a park model trailer in lieu of the mobile home tax.
- Expanded the farm building exemption to include feedlots and buildings used primarily, rather than exclusively, for farming purposes.
- Allowed depreciation expense as an addition to net farm income for the farm residence exemption.
- Granted the farm residence exemption to beginning farmers.
- Established a class of inundated agricultural property that is assessed at ten percent of the noncropland value.
- Changed the agricultural land valuation formula to require inclusion of a production cost factor.
- Made permanent the requirement that school districts and townships must be included in the negotiations for the new business exemption.
- Changed the payments in lieu of taxes for new businesses to include existing buildings as well as new buildings.
- Extended the time of exemption for remodeling from three to five years and allowed an addition to an existing building to be exempted as an eligible improvement.
- Changed the tax deed proceedings from a sale of tax delinquent property to foreclosure of tax lien.
- Changed the county levy for social security to allow up to five mills to be used for county automation and telecommunications.
- Increased the levy of a tax for programs and activities for senior citizens by a county or city from one to two mills.
- Provided that a school district may levy up to 15 mills for removal or abatement of asbestos in school buildings and for providing an alternative education program.

2001 Session.
- Required that when the board of county commissioners rejects an application for abatement, a written explanation of the rationale for the decision must be attached to the application and mailed to the applicant.
- Provided that the taxable value of a centrally assessed wind turbine electric generation unit with a capacity of 100 kwh or more is 3 percent of assessed value.
- Provided that a county officer or employee will not refund a fee or tax of less than $5.00.
- Provided that a municipality may provide partial or complete exemption on residential property, exclusive of land, if the property was rehabilitated by an individual for the primary place of residence as a renaissance zone project. Provided for exemptions on buildings, structures, fixtures and improvements rehabilitated as a zone project for any business or investment purpose. A taxpayer may not be delinquent in payment of any state or local tax to benefit from those provisions.
- Defined inundated agricultural land as agricultural property containing a minimum of 10 contiguous acres if the value exceeds 10 percent of the average agricultural value of noncropland for the county. Provided the land must have been unsuitable for growing crops or grazing farm animals for at least two consecutive growing seasons, and produced revenue less than the county average revenue per acre for noncropland.
- Required a nonprofit organization to make payments in lieu of taxes on property acquired for conservation.
- Changed the rates of the coal severance and coal conversion taxes to make North Dakota coal more competitive with out-of-state coal and at the same time, maintain the level of payments to counties and the state general fund.
- Provided that a township may defray expenses of improvements by special assessment.

2003 Session.
- Provided that land acquired by tax deed must be sold to the highest qualified bidder. Provided that a person is unqualified to be the highest bidder for property if the person owes delinquent taxes to any county.
- Provided that any privately owned structure, fixture, or improvement located on state-owned land is not exempt from special assessments levied for flood control purposes if it is used for commercial purposes, unless it is primarily used for athletic or educational purposes at a state institution of higher learning.
- Exempted from property taxation all property including any possessory interest therein, relating to any waterworks, mains, and water distribution system, or sewage systems and facilities for the collection, treatment, purification, and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision.
- Exempted from property taxation any property, including any possessory interest therein, belonging to the state or an agency or institution of the state, leased to a private entity pursuant to N.D.C.C.§ 54-01-27, which property is operated by, or providing services to, the state or its citizens.
- Provided that property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.

- Provided for one year's exemption and three years of graduated tax rates for new or substantially expanded investor-owned and cooperative-owned transmission lines of 230 kilovolts or larger, and associated transmission substations, initially placed in service on or after October 1, 2002. After the fourth year, those lines are taxed at $300 per mile.
- Provided that the rate used for capitalization of the average annual gross return of agricultural land may not be less than 9.5 percent.

2005 Session.

- Created the North Dakota transmission authority. Provided that transmission facilities built under the authority are exempt from property taxes for a period not to exceed five years. After the initial period, transmission lines of 230 kilovolts or larger and associated transmission substations are subject to a per-mile tax at the full rate and subject to the same manner of imposition and allocation as imposed on cooperative-owned transmission lines.

- Required the county auditor to certify if there is an unsatisfied lien for homestead credit for special assessments against land in a document presented for transfer. Provided that the county recorder may not record any deed for property on which the county auditor has determined that there is an unsatisfied lien for homestead credit for special assessments, except for a transfer between spouses because of the death of one of them.

- Required a recipient to enter into a business incentive agreement with each grantor of a business incentive granted by the state or a political subdivision. Provided a penalty for a recipient that fails to meet goals.

- Provided that agricultural property includes land on which a greenhouse is located if the land is used for a nursery or other purpose associated with the operation of the greenhouse. Provided that a greenhouse located on agricultural land and used primarily for growing of horticultural or nursery products is a farm building or improvement.

- Provided that a centrally assessed wind turbine electric generation unit with a nameplate generation capacity of 100 kilowatts or more, for which a purchased power agreement was executed after April 30, 2005, and before July 1, 2006, and construction was begun after April 30, 2005, and before July 1, 2006, must be valued at 1½ percent of assessed value to determine taxable value.

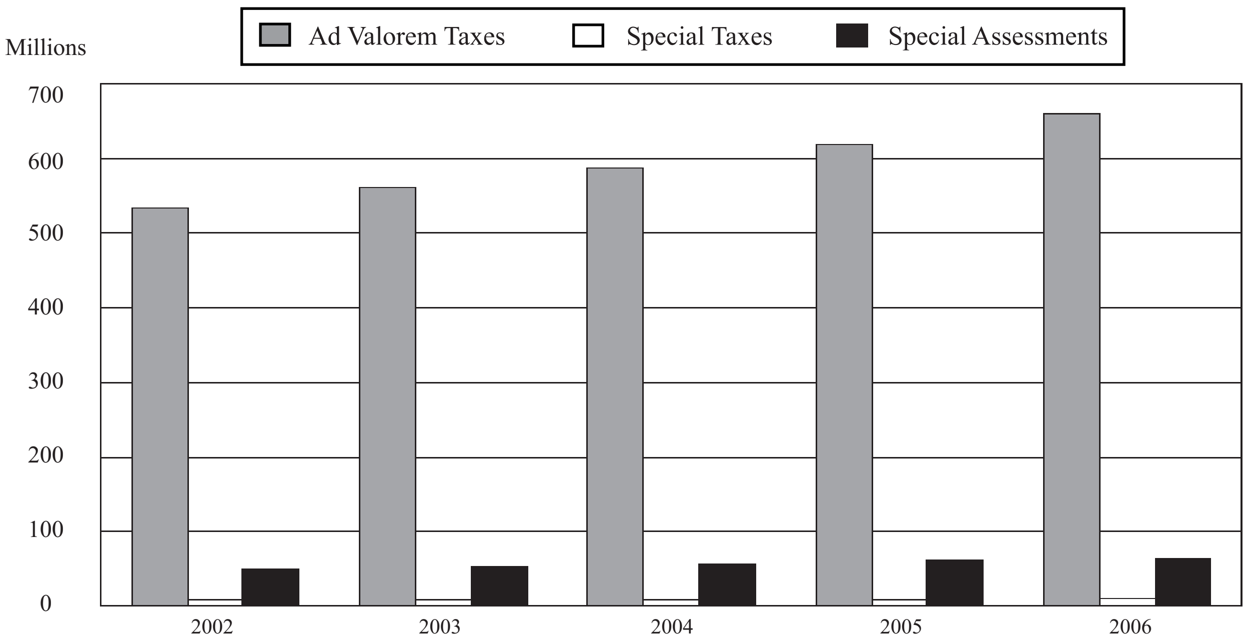
- Provided that a person who is either 65 years of age or older, or permanently and totally disabled, whose income does not exceed $14,500 may qualify for the homestead credit or renter's refund. Increased the maximum amount of taxable value credit to $3,038. Increased the unencumbered amount of homestead valuation that may be excluded from the asset test for homeowners to $100,000.

- Provided that the rate used for capitalization of the average annual gross return of agricultural land may not be less than 8.9 percent for 2005 and 8.3 percent for subsequent years.

- Authorized housing authorities to provide housing for persons of moderate income. Provided that property of an authority used for moderate income housing is exempt from all taxes except special assessments unless specifically exempted from a special assessment by the political subdivision.

- Provided that in lieu of exemption of a park model trailer located in a trailer park or campground, the department of transportation shall register the trailer as a travel trailer for a registration fee of $20 per year.

Ad Valorem and Special Property Taxes Levied
Payable in 2002-2006

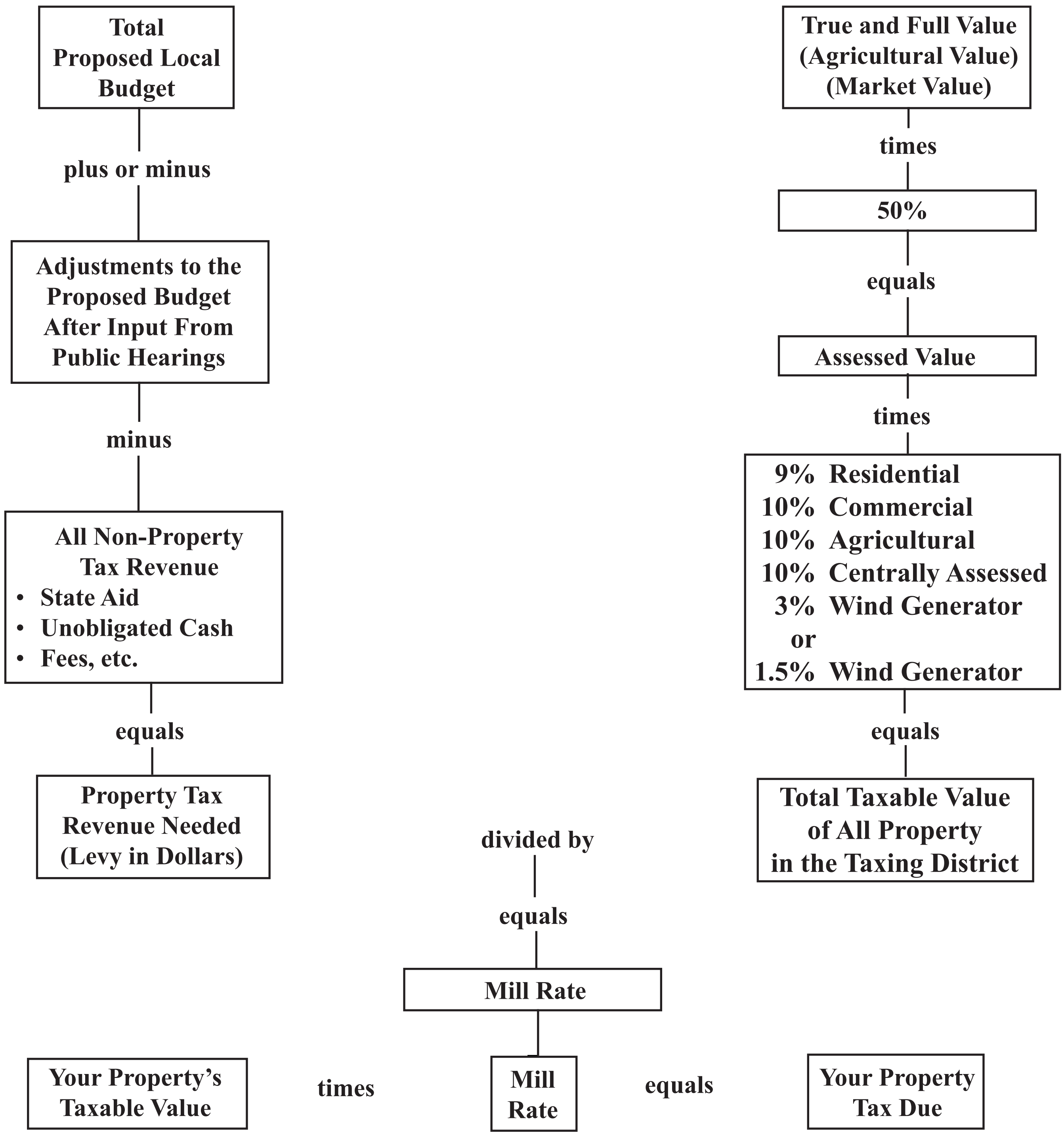


Year Payable	Total Taxes and Special Assessments	Ad Valorem Property Taxes: Real Estate [1]	Ad Valorem Property Taxes: Utilities [2]	Special Property Taxes: Special Taxes [3]	Special Property Taxes: Special Assessments
2002	591,580,893	504,170,558	28,459,117	8,999,429	49,951,786
2003	623,370,222	532,221,864	28,530,045	9,215,033	53,403,280
2004	652,667,321	555,928,867	30,483,151	9,253,881	57,001,422
2005	688,732,379	586,126,742	31,938,951	9,638,152	61,028,534
2006	733,392,572	627,445,014	32,344,362	10,269,176	63,334,020

(1) Includes tax increments.
(2) Includes taxes on railroad property; electric, gas and heating property (except cooperative and coal conversion); and pipeline property.
(3) Includes taxes from mobile homes, rural electric cooperatives, banks and building and loan associations, woodlands, and game management areas.

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report." Transmission line taxes are collected by the State Tax Commissioner and are not included above.

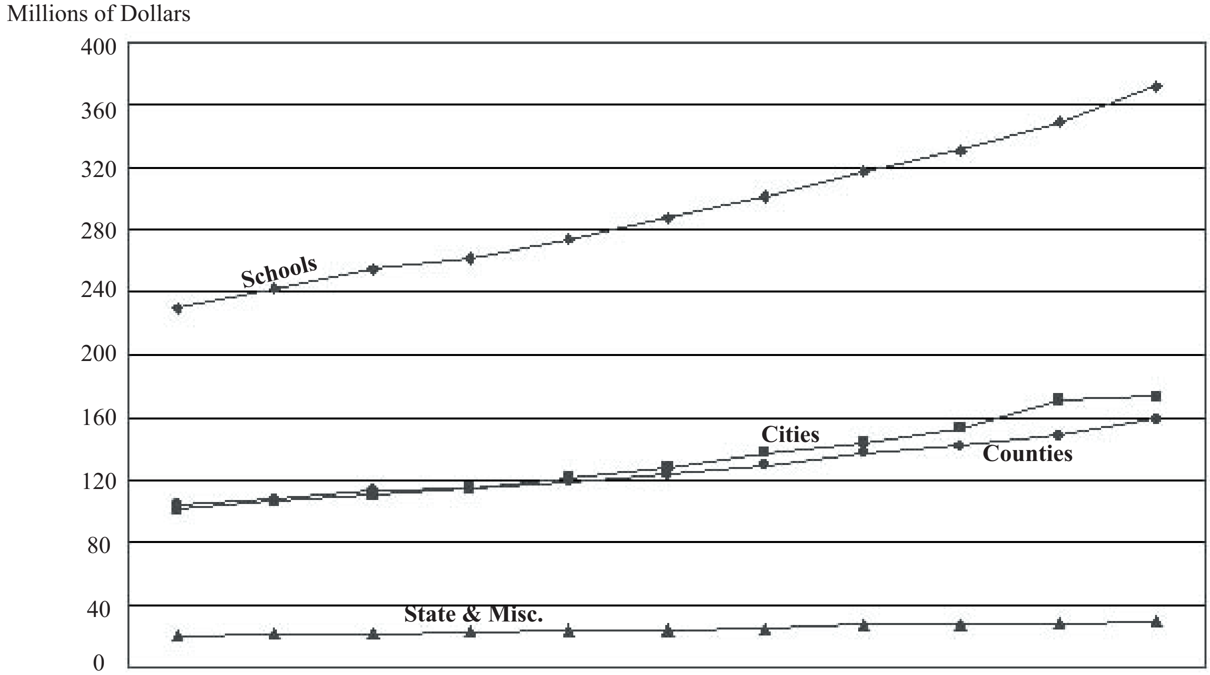
North Dakota Property Tax System



All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax. The other element of the property tax is the amount of revenue that needs to be raised.

General and Special Property Taxes by Taxing Districts
Payable in 1996 - 2006

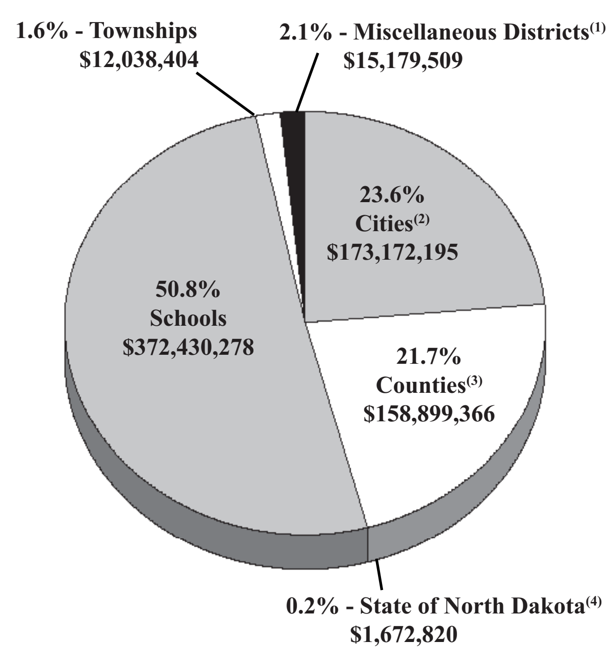


Year Payable	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Schools	230	242	255	262	274	288	301	317	331	349	372
Cities	101	106	110	114	121	128	137	144	153	171	172
Counties	104	108	113	115	119	123	129	137	142	149	159
State & Misc.	20	21	22	23	24	24	25	27	27	28	29

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

Percent of Property Taxes by Taxing District
Levied in 2005 - Payable in 2006

GRAND TOTAL - $733,392,572



(1) Garrison Diversion Conservancy District, rural fire protection districts, hospital district, soil conservation districts, rural ambulance districts, recreation service districts, Southwest Water Authority and all special assessments for rural districts.

(2) Including city park districts, special assessments, and tax increments.

(3) Including county park districts, county library, county airport, water management districts, vector control, unorganized townships and board of county parks.

(4) Constitutional one mill levy for medical center at the University of North Dakota.

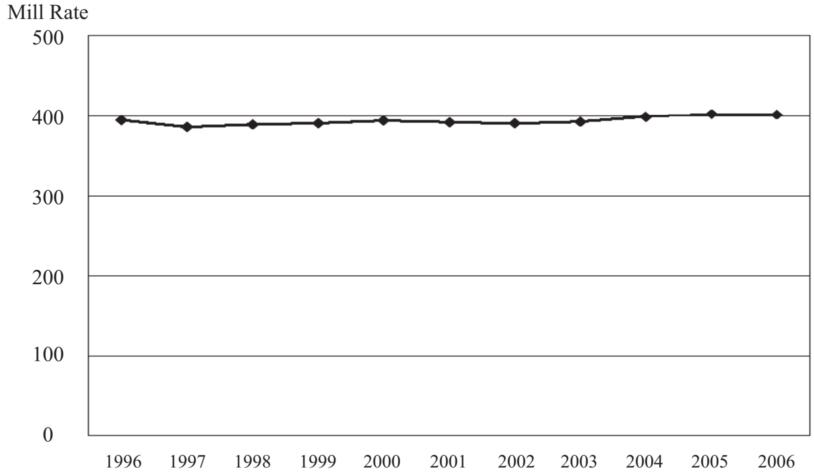
SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

General Property Taxes by County - Payable in 2002-2006

County	2002 Total Ad Valorem Property Taxes	Percent Change	2003 Total Ad Valorem Property Taxes	Percent Change	2004 Total Ad Valorem Property Taxes	Percent Change	2005 Total Ad Valorem Property Taxes	Percent Change	2006 Total Ad Valorem Property Taxes	Percent Change
Adams	2,453,990	5.2	2,563,241	4.5	2,593,335	1.2	2,734,585	5.4	2,849,899	4.2
Barnes	10,400,945	5.4	10,889,865	4.7	11,804,754	8.4	12,136,002	2.8	13,006,449	7.2
Benson	3,860,334	2.9	3,958,608	2.5	3,998,165	1.0	4,037,188	1.0	4,207,168	4.2
Billings	608,510	1.5	619,371	1.8	672,161	8.5	695,602	3.5	708,361	1.8
Bottineau	6,569,116	7.0	6,651,789	1.3	6,998,204	5.2	7,314,910	4.5	7,733,987	5.7
Bowman	2,221,035	-3.4	2,354,669	6.0	2,055,826	-12.7	2,262,577	10.0	2,410,615	5.6
Burke	2,162,284	-4.5	2,225,234	2.9	2,437,398	9.5	2,469,023	1.3	2,543,429	3.0
Burleigh	60,121,827	5.2	63,347,116	5.4	66,114,984	4.4	70,397,362	6.5	75,189,184	6.8
Cass	117,148,172	7.3	125,720,940	7.3	134,352,710	6.9	146,680,991	9.2	160,111,503	9.2
Cavalier	5,810,054	0.2	5,968,462	2.7	6,134,509	2.8	6,267,022	2.2	6,295,726	4.6
Dickey	5,306,110	7.5	5,541,540	4.4	5,672,799	2.4	5,562,646	-1.9	6,035,845	8.5
Divide	2,696,072	1.0	2,675,771	-0.8	2,798,728	4.6	2,821,071	0.8	2,869,787	1.7
Dunn	3,575,264	5.32	3,782,078	5.8	3,887,738	2.8	4,059,219	4.4	4,163,603	2.6
Eddy	2,275,507	4.7	2,337,157	2.7	2,493,299	6.7	2,568,714	3.0	2,675,769	4.2
Emmons	3,734,118	0.6	3,779,594	1.2	3,964,980	4.9	4,060,378	2.4	4,278,121	5.4
Foster	3,820,256	8.2	3,947,577	3.3	3,936,415	-0.3	4,057,362	3.1	4,023,851	-0.8
Golden Valley	1,684,130	-3.0	1,733,145	2.9	1,666,695	-3.8	1,705,977	2.4	1,740,429	2.0
Grand Forks	54,152,356	4.4	56,806,768	4.9	59,810,282	5.3	63,722,135	6.5	67,910,543	6.2
Grant	2,688,003	3.9	2,721,576	1.2	2,684,087	-1.4	2,757,056	2.7	2,839,060	3.0
Griggs	3,152,252	4.1	3,399,455	7.8	3,349,623	-1.5	3,368,117	0.6	3,481,082	3.4
Hettinger	2,561,517	0.5	2,690,864	5.0	2,755,938	2.4	2,944,898	6.9	3,045,246	3.4
Kidder	2,557,716	-1.9	2,715,575	6.2	2,946,209	8.5	3,133,865	6.4	3,246,844	3.6
LaMoure	4,306,714	3.1	4,406,069	2.3	4,687,088	6.4	5,178,623	10.5	5,459,978	5.4
Logan	2,013,618	1.6	2,021,229	0.4	2,062,281	2.0	2,039,302	-1.1	2,087,612	2.4
McHenry	4,790,731	5.9	4,911,928	2.5	5,204,674	6.0	5,504,780	5.8	5,875,339	6.7
McIntosh	2,854,796	3.2	2,911,283	2.0	3,016,185	3.6	3,094,297	2.6	3,225,455	4.2
McKenzie	3,386,094	5.2	3,434,259	1.4	3,555,472	3.5	3,663,983	3.1	3,750,757	2.4
McLean	5,606,337	3.9	5,918,002	5.6	6,464,448	9.2	6,733,947	4.2	7,012,645	4.1
Mercer	5,791,283	8.2	5,882,102	1.6	6,088,203	3.5	6,179,492	1.5	6,556,798	6.1
Morton	20,618,197	2.2	21,162,122	2.6	22,778,415	7.6	24,265,120	6.5	27,069,645	11.6
Mountrail	4,977,119	0.8	5,156,009	3.6	5,133,848	-0.4	5,169,726	0.7	5,477,741	6.0
Nelson	4,120,380	2.7	4,178,608	1.4	4,235,371	1.4	4,264,052	0.7	4,364,556	2.4
Oliver	1,389,447	4.6	1,468,364	5.7	1,490,833	1.5	1,533,527	2.9	1,670,890	9.0
Pembina	9,533,512	4.4	9,909,310	3.9	9,824,330	-0.9	9,903,240	0.8	10,212,016	3.1
Pierce	4,514,481	8.0	4,579,146	1.4	4,758,652	3.9	4,824,718	1.4	4,902,987	1.6
Ramsey	9,080,513	1.0	9,359,497	3.1	9,637,229	3.0	10,338,870	7.3	10,893,268	5.4
Ransom	5,262,086	2.6	5,994,226	13.9	6,206,508	3.5	6,341,653	2.2	6,607,588	4.2
Renville	2,537,717	0.6	2,789,326	9.9	2,903,250	4.1	3,052,269	5.1	2,970,044	-2.7
Richland	17,268,938	5.3	18,322,931	6.1	18,802,477	2.6	19,368,866	3.0	19,969,815	3.1
Rolette	3,287,336	1.5	3,516,572	7.0	3,491,704	-0.7	3,577,888	2.5	3,728,001	4.2
Sargent	4,823,344	1.4	5,207,653	8.0	5,455,585	4.8	5,620,577	3.0	6,040,508	7.5
Sheridan	1,742,163	1.3	1,801,927	3.4	1,882,775	4.5	1,968,628	4.6	2,056,936	4.5
Sioux	712,418	-1.9	662,661	-7.0	734,520	10.8	765,886	4.3	678,900	-11.4
Slope	961,171	2.6	1,012,795	5.4	1,067,638	5.4	1,095,729	2.6	1,123,248	2.5
Stark	13,714,552	2.7	14,313,263	4.4	15,085,650	5.4	16,242,993	7.7	17,207,491	5.9
Steele	3,452,107	3.9	3,559,676	3.1	3,588,789	0.8	3,595,623	0.2	3,814,357	6.1
Stutsman	17,031,436	5.1	18,669,264	9.6	19,396,865	3.9	20,090,708	3.6	21,283,299	5.9
Towner	3,509,885	4.3	3,608,000	2.8	3,812,907	5.7	3,728,715	-2.2	3,719,070	-0.3
Traill	8,100,655	4.8	8,536,646	5.4	8,804,445	3.1	9,125,117	3.6	9,977,250	9.3
Walsh	11,631,393	3.8	12,091,520	4.0	12,189,558	0.8	12,099,288	-0.7	12,382,781	2.3
Ward	36,428,105	4.8	38,714,503	6.3	39,888,318	3.0	41,693,206	4.5	46,080,122	10.5
Wells	5,003,443	4.3	5,372,409	7.4	5,767,738	7.4	5,629,904	-2.4	5,762,976	2.4
Williams	14,620,140	0.8	14,850,214	1.6	15,267,423	2.8	15,618,268	2.3	16,460,801	5.4
Total	532,629,677	4.6	560,751,909	5.3	586,412,017	4.6	618,065,693	5.4	659,789,374	6.8

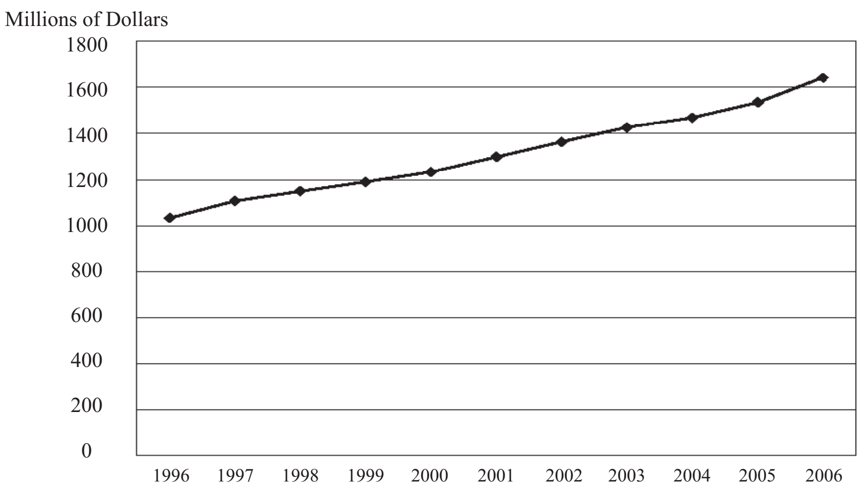
SOURCE: North Dakota Office of State Tax Commissioner. Property Tax Division, "Property Tax Statistical Report."

Statewide Average Mill Rates - For Taxes Payable in 1996-2006



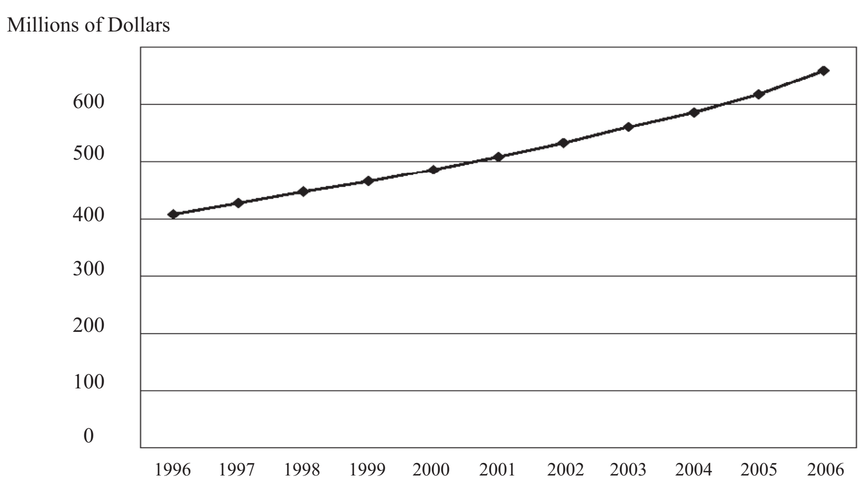
Year Payable	Average Mill Rate
1996	394.73
1997	386.04
1998	389.32
1999	390.74
2000	394.10
2001	392.07
2002	390.33
2003	392.78
2004	399.24
2005	402.70
2006	401.66

Statewide Property Taxable Valuations - For Taxes Payable in 1996-2006



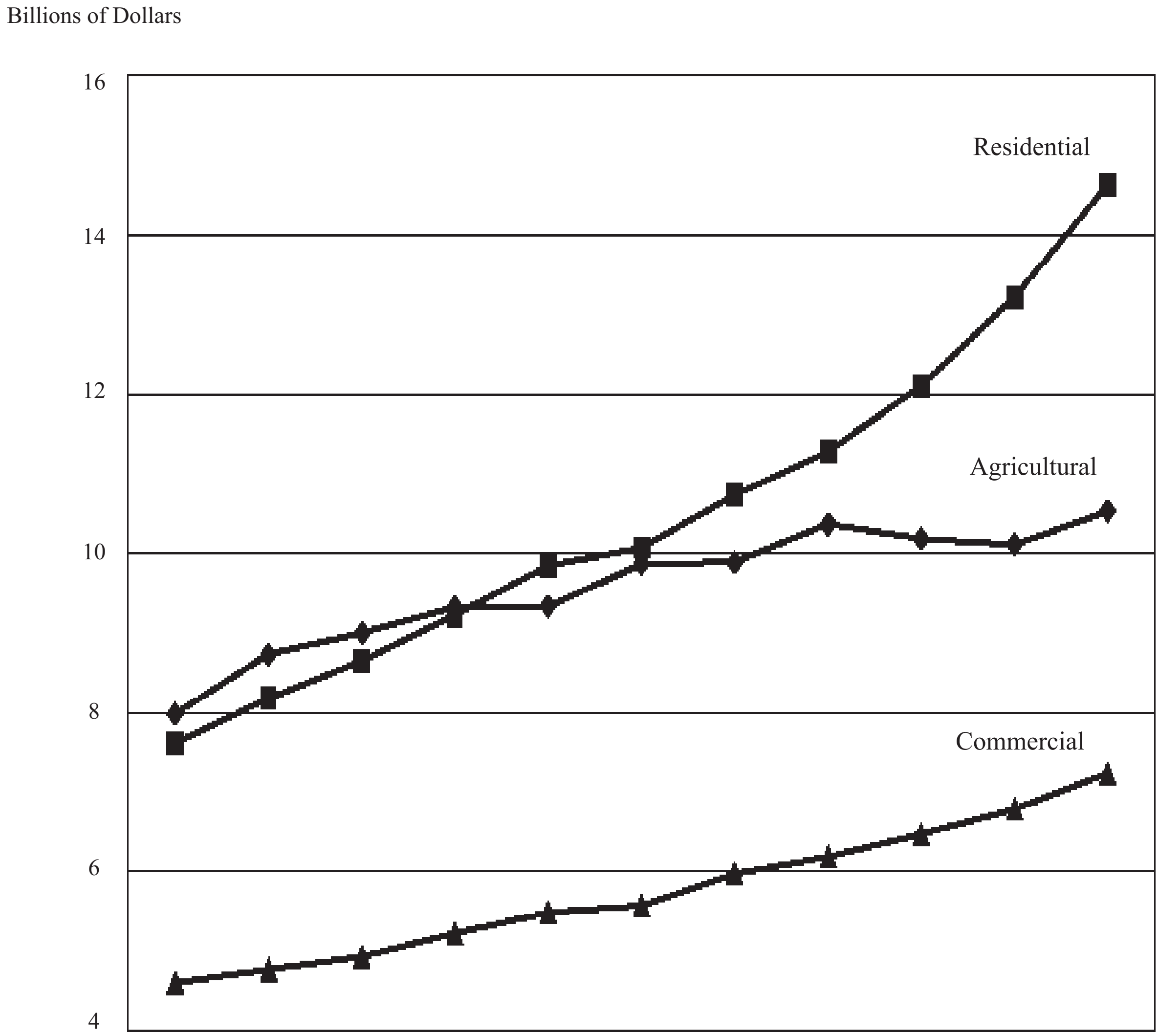
Year Payable	Taxable Value
1996	1,034,523,718
1997	1,107,855,644
1998	1,149,656,119
1999	1,190,563,319
2000	1,233,682,014
2001	1,298,333,166
2002	1,364,577,713
2003	1,427,642,584
2004	1,468,874,722
2005	1,534,816,263
2006	1,642,672,714

Ad Valorem Property Taxes Levied - For Taxes Payable in 1996-2006



Year Payable	Taxes
1996	408,353,215
1997	427,677,147
1998	447,582,274
1999	465,203,396
2000	486,194,264
2001	509,032,721
2002	532,629,675
2003	560,751,909
2004	586,412,017
2005	618,065,693
2006	659,789,374

True and Full Value by Classification
For Taxes Payable in 1996 - 2006



Year Payable	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural	7.983	8.729	8.998	9.324	9.329	9.860	9.890	10.364	10.178	10.103	10.523
Residential	7.610	8.175	8.645	9.223	9.840	10.069	10.728	11.273	12.099	13.221	14.631
Commercial	4.602	4,768	4.928	5.225	5.483	5.569	5.973	6.1850	6.470	6.784	7.235

Explanation of Terms and Trends

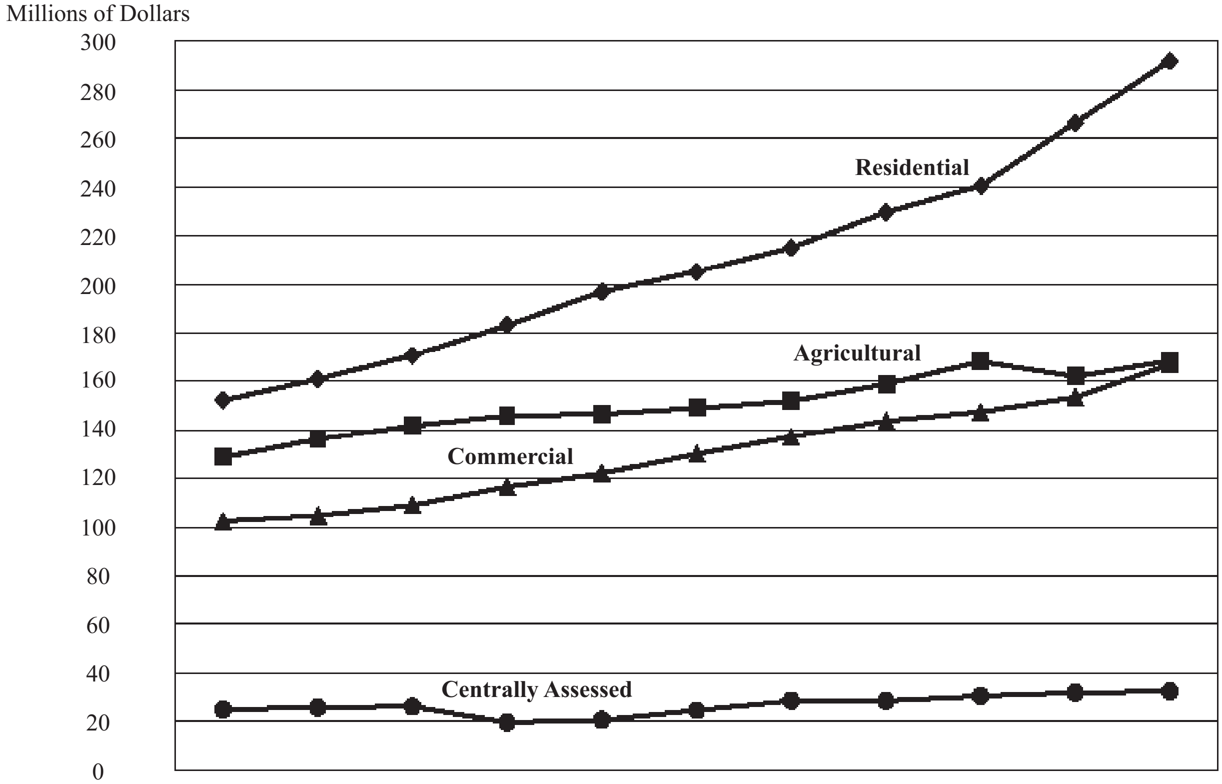
True and full value. For residential and commercial property "true and full value" is the local assessor's estimate of the market value of the property. For agricultural property, true and full value is based on agricultural production and is typically less than its market value or selling price.

Effective Rates. An annual sales ratio study measures how close "true and full values" are to actual selling prices for property. The results may be used to calculate an effective tax rate for each classification. The effective rate is the total tax divided by the total indicated selling price (see table on page 82).

Trends. During the first eight years of the past 11 years, mill rates were fluctuating and total taxable valuations were increasing (see preceding page). More recently, the statewide average mill rate is increasing while values are increasing. The table above shows how the total true and full value for each classification has been increasing at an accelerating pace. Agriculture values tend to go up when production and commodity prices are increasing. Other property values tend to go up when employment is high. Another factor is that total values of residential and commercial property include a rising number of properties. The number of acres classified as agricultural land is down slightly, but for taxes payable in 2006 the minimum statutory capitalization rate decreased, resulting in higher values for agricultural land.

Charts in this section show statewide data. Please note that values and taxes for individual properties will depend on local economic conditions and other factors. The table above includes values for taxes payable in 2006.

Ad Valorem Property Taxes by Classification
Payable in 1996- 2006



Year Payable	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Residential	152.2	160.9	170.7	183.1	196.9	205.3	215.1	229.6	240.4	266.5	292.0
Agricultural	128.7	136.2	141.7	145.9	146.6	149.0	151.9	158.9	168.1	162.0	168.5
Commercial	102.5	104.8	109.1	116.6	122.1	130.1	137.2	143.7	147.5	153.5	167.0
Central	24.9	25.8	26.1	19.6	20.6	24.6	28.5	28.5	30.4	31.9	32.3
Total	408.4	427.7	447.6	465.2	486.2	509.0	532.6	560.7	586.4	613.9	659.8

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

Ad Valorem Property Taxes Percent of Total by Classification
Payable in 2004, 2005 and 2006

	2004	2005	2006
Residential	41.0%	43.1%	44.3%
Agricultural	28.7%	26.2%	25.5%
Commercial	25.2%	25.5%	25.3%
Centrally Assessed	5.1%	5.2%	4.9%

Effective Rates by Classification
Payable in 2004, 2005 and 2006

Property Classification	Effective Rate 2004	2005	2006
Residential	1.83%	1.83%	1.81%
Agricultural	1.08%	0.92%	0.94%
Commercial	2.21%	2.18%	2.17%
Centrally Assessed	1.66%	1.64%	1.64%
Total	**1.57%**	**1.50%**	**1.51%**

STATE COMPARISONS

North Dakota's property taxes are relatively moderate compared to those in other states, whether measured per capita or per $1,000 of personal income. In recent years, property values have increased significantly resulting in a corresponding increase in property tax assessments. In response, many states have implemented various property tax relief initiatives in an effort to reduce the property tax burden. The tables compare the property taxes on equally valued homes in similar size North Dakota cities as well as from neighboring states. Neighboring states' property taxes on similarly valued residences appear less than North Dakota's because those states provide a homestead credit for all owner-occupied residential property. North Dakota's homestead credit is available only to elderly and disabled persons with limited income.

Rankings (as shown on the following page) based on collections offer insight into overall tax levels. However, further analysis is needed to see the details of how state tax systems differ. Property taxes may vary by property classification and different types of property may be taxed or excluded. Some states, such as Wyoming, use the property tax to tax mineral wealth while states like North Dakota levy separate severance taxes. In Alaska, because of its oil reserves fund, residents receive annual payments of about $1,000 per person.

Property Taxes on an Owner Occupied Home in North Dakota
Payable in 2006

$70,000 Home

City	Tax Amount*
Bowman	$1,010
Carrington	$1,269
Grafton	$1,534
Kenmare	$1,254
Lisbon	$1,487
Rugby	$1,395
Washburn	$944

$100,000 Home

City	Tax Amount*
Bismarck	$1,956
Devils Lake	$2,260
Dickinson	$2,001
Fargo	$2,055
Grand Forks	$2,103
Jamestown	$2,237
Mandan	$2,286
Minot	$1,918
Valley City	$2,100
Wahpeton	$2,146
West Fargo	$1,946
Williston	$2,200

* Calculations assume taxes are paid by February 15, allowing the taxpayer a 5% discount.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division, July 2006.

Property Taxes on a $100,000 Owner Occupied Home in Neighboring States
Payable in 2006

SOUTH DAKOTA[1]		MONTANA[2]		MINNESOTA[3]	
City	Tax Amount	City	Tax Amount	City	Tax Amount
Aberdeen	$ 1,732	Miles City	$ 1,883	Bemidji	$ 1,131
Rapid City	1,379	Great Falls	1,190	St. Cloud	758
Sioux Falls	1,438	Billings	1,332	Minneapolis	987

(1) Owner-occupied residences receive a 30% tax reduction.
(2) 32% homestead credit for all residential property
(3) After $282 homestead credit.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division

Per Capita State & Local Property Taxes 2004

Rank	State	Amount
1	New Jersey	$2,099
2	Connecticut	1,944
3	New Hampshire	1,940
4	District of Columbia	1,856
5	New York	1,677
6	Rhode Island	1,629
7	Maine	1,596
8	Massachusetts	1,532
9	Vermont	1,531
10	Illinois	1,407
11	Wyoming	1,352
12	Wisconsin	1,350
13	Alaska	1,306
14	Texas	1,254
15	Kansas	1,187
16	Michigan	1,186
17	Nebraska	1,148
18	Maryland	1,082
19	Iowa	1,080
20	Florida	1,064
21	Montana	1,034
22	Virginia	1,031
23	Washington	1,029
24	Colorado	1,026
25	Pennsylvania	1,010
26	Ohio	981
27	Indiana	975
28	Minnesota	965
29	Oregon	963
30	California	963
31	Nevada	920
32	**NORTH DAKOTA**	**919**
33	South Dakota	915
34	South Carolina	882
35	Georgia	880
36	Arizona	848
37	Idaho	777
38	Missouri	747
39	North Carolina	713
40	Utah	689
41	Mississippi	641
42	Tennessee	608
43	Hawaii	571
44	Delaware	546
45	West Virginia	540
46	Kentucky	516
47	Louisiana	502
48	Oklahoma	465
49	New Mexico	441
50	Arkansas	400
51	Alabama	367
	US	$1,084

SOURCE: US Census Bureau - State & Local Government Finances by Level of Government and by State 2003-2004, as of July 19, 2006, www.census.gov/govs/www/estimate04.html

Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income, March 2006, www.bea.gov/bea/regional/spi/default.cfm?satable=summary

Per $1,000 of Personal Income State & Local Property Taxes 2004

Rank	State	Amount
1	Maine	$53.00
2	New Hampshire	53.00
3	New Jersey	50.00
4	Vermont	48.00
5	Rhode Island	48.00
6	New York	44.00
7	Connecticut	43.00
8	Wisconsin	42.00
9	Texas	41.00
10	Illinois	41.00
11	Wyoming	39.00
12	Alaska	38.00
13	Kansas	38.00
14	Montana	37.00
15	Michigan	37.00
16	Massachusetts	36.00
17	District of Columbia	36.00
18	Nebraska	36.00
19	Iowa	35.00
20	Florida	34.00
21	South Carolina	32.00
22	Indiana	32.00
23	Oregon	32.00
24	Ohio	31.00
25	**NORTH DAKOTA**	**31.00**
26	Pennsylvania	30.00
27	South Dakota	30.00
28	Arizona	30.00
29	Georgia	30.00
30	Washington	29.00
31	Idaho	29.00
32	Virginia	29.00
33	Colorado	28.00
34	California	27.00
35	Maryland	27.00
36	Nevada	27.00
37	Minnesota	27.00
38	Mississippi	26.00
39	Utah	26.00
40	Missouri	25.00
41	North Carolina	24.00
42	West Virginia	21.00
43	Tennessee	20.00
44	Kentucky	19.00
45	Louisiana	18.00
46	Hawaii	18.00
47	New Mexico	17.00
48	Oklahoma	17.00
49	Arkansas	16.00
50	Delaware	15.00
51	Alabama	13.00
	US	$33.00

SOURCE: US Census Bureau - State & Local Government Finances by level of Government & by State 2003-04, July 19, 2006, www.census.gov/govs/www/estimate04.html

Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income, March 2006,www.bea.gov/bea/regional/spi/default.cfm?satable=summary

FUEL TAXES

CURRENT LAW

Imposition, Rates and Administration

Motor Vehicle Fuel Tax (Gasoline and Gasohol). A motor vehicle fuel tax of 23 cents per gallon is imposed on motor vehicle fuel (gasoline and gasohol) sold to retailers and consumers. Consumers who paid the tax but used the fuel in nonlicensed equipment for agricultural or industrial purposes may obtain a partial refund.

Eight cents per gallon is withheld from farmers' refunds. Two cents is deposited into the Agricultural Fuel Tax Fund to promote the use of agricultural products, one cent is deposited into the Ethanol Production Fund for North Dakota ethanol plant incentives, four cents is deposited into an Agricultural Research Fund, and one cent is retained in the Township Highway Aid Fund.

One and one-half cents per gallon is withheld from industrial users' refunds. One-half cent is deposited into the Agricultural Fuel Tax Fund and one cent is retained in the Township Highway Aid Fund.

The state and political subdivisions may obtain a refund of 22 cents per gallon on all motor vehicle fuel used for construction, reconstruction, and maintenance of roads and highways. In this case, one cent is retained in the Township Highway Aid Fund.

Special Fuels Taxes. Special fuels include diesel, kerosene, heating fuel, compressed natural gas (CNG), and liquefied petroleum gas (LPG) known as propane. A special fuels tax of 23 cents per gallon is imposed on all undyed (not red) diesel fuels. The tax also applies to kerosene, CNG, and LPG sold for use in licensed vehicles.

A 2% special fuels excise tax is imposed on dyed (red) diesel fuels and heating fuels, and on kerosene and LPG sold for uses other than in a licensed motor vehicle.

The 23 cents per gallon and the 2% special fuels excise tax are not refundable. Consumers are urged to purchase dyed (red) diesel fuel subject to the 2% special fuels excise tax in lieu of the 23 cents per gallon tax.

Aviation Fuel Tax. The aviation fuel tax is imposed on the sale of aviation gasoline and jet fuels at a rate of 8 cents per gallon. Consumers qualify for a refund of the 8 cents per gallon tax. If a refund is granted, the fuel becomes subject to a 4% excise tax on the purchase price of the fuel. The 4% excise tax is deducted from the refund claim at the time of refund.

Tribal Tax. The Spirit Lake Tribe and the North Dakota portion of the Standing Rock Sioux Tribe passed ordinances imposing Tribal motor vehicle fuel and special fuel taxes. The ordinances are consistent with North Dakota's state fuel tax laws. The initial implementation date for the Standing Rock Sioux Tribe was January 1, 1999, and for the Spirit Lake Tribe that date was November 1, 2006. The amount to be distributed to the Tribe and to the state is based on the population demographics of the last United States census.

HISTORICAL OVERVIEW

Significant Changes in Law

1977 Session. The motor vehicle fuel tax and the special fuels tax rates increased from 7 cents to 8 cents per gallon.

1979 Session. The legislature enacted a 4 cents per gallon tax rate for alcohol blended fuel.

1983 Session. The motor vehicle fuel tax and the special fuels tax rates increased from 8 cents to 13 cents per gallon. These rates were reduced for alcohol blended fuel by 4 cents per gallon through December 31, 1983; 5 cents per gallon for calendar year 1984; 6 cents per gallon for calendar year 1985; and 4 cents per gallon from January 1, 1986 through June 30, 1992.

1985 Session. The reduction for alcohol blended fuel was amended to 8 cents per gallon for July 1, 1985 through June 30, 1987 and 4 cents per gallon for July 1, 1987 through December 31, 1992.

1987 Session. The motor vehicle fuel tax and special fuels tax rates increased from 13 cents to 17 cents per gallon.

1989 Session. The motor vehicle fuel tax rate increased from 17 cents to 20 cents per gallon and the special fuels tax rate increased from 17 cents to 19 cents per gallon. The rate reduction for alcohol blended fuel was suspended for July 1, 1989 through June 30, 1991 and replaced with an ethanol production subsidy. An additional 1½ cents was withheld from farmers' refunds and deposited in the Agricultural Fuel Tax Fund. Enabling legislation was passed to allow the director of the new Department of Transportation to enter the International Fuel Tax Agreement (IFTA) for base state fuel tax licensing and reporting. The State Tax Commissioner retained non-IFTA importer for use tax administration.

1989 Referral Election. The tax rate increases passed by the 1989 Legislature were rejected in a Special Election. The tax rates for the motor vehicle fuel tax and the special fuels tax remained 17 cents per gallon.

1991 Session. An additional 2 cents per gallon was withheld from farmers' refunds and deposited in the Highway Tax Distribution Fund for incentives to North Dakota ethanol plants. The rate reduction for alcohol blended fuel was eliminated.

1993 Session. The legislature provided for a "triggered" increase in the motor vehicle fuel tax and special fuels tax depending on the availability of federal highway matching funds. Under this provision the rate increased from 17 cents to 18 cents per gallon for the period December 1, 1993 through December 31, 1995.

1995 Session. The legislature continued to "trigger" changes in the motor vehicle fuel tax and special fuels tax rates depending on the availability of additional federal highway matching funds. The rate increased to 20 cents per gallon for the period January 1, 1996 through December 31, 1997.

1997 Session. The legislature provided for a permanent 20 cents per gallon motor vehicle fuel tax and special fuels tax through December 31, 1999 and added a provision to the special fuels tax chapter allowing the 2% special fuels excise tax to be charged on fuel dyed for federal motor fuel tax exemption purposes. The legislature also revised refund requirements to allow refunds of motor vehicle fuel tax and special fuels tax to industrial fuel users when the fuel was used in nonlicensed equipment on publicly funded projects. An additional 4 cents per gallon is withheld from agricultural consumer refund claims for deposit into an agricultural research fund, and the amount withheld for ethanol production incentives was lowered from 2 cents per gallon to 1 cent per gallon.

1999 Session. The legislature reenacted the motor vehicle fuel and special fuels tax statutes and increased the taxes to 21 cents per gallon. The legislature also repealed the refund provisions for special fuel taxes and enacted a dyed fuel enforcement program. Dyed diesel fuel may not be used in licensed motor vehicles, and in the event of a violation, administrative fees may be assessed.

2001 Session. The legislature enacted a decrease in special fuels taxes on diesel fuel containing at least 2% biodiesel fuel by weight. The decrease is contingent upon the opening of a biodiesel refining facility in this state with a production capacity of at least 10 million gallons biodiesel per year. If triggered, the tax on undyed diesel fuel containing biodiesel is reduced by one and five-hundreths cents per gallon, and the tax on dyed diesel fuel containing biodiesel is reduced to one and nine-tenths percent.

2005 Session. The legislature provided for an increase in the tax rates for both motor vehicle fuel and special fuels from 21 cents per gallon to 23 cents per gallon. E85 was defined and a reduced rate of 1 cent per gallon was imposed on all E85 sold in the state until a total of 1.2 million gallons were sold, at which time the tax rate reverted to the 23 cents motor fuel tax rate. A special fuels tax exemption was provided through June 30, 2010, for the sale of hydrogen used to fuel an internal combustion engine or fuel cell. Provided for motor vehicle and special fuel tax refunds to Native Americans and established a refund reserve fund for this purpose.

Distribution of Revenue

Tax Types	
Motor Vehicle Fuel Tax (23¢ per gallon):	
22¢	Highway Tax Distribution Fund
1¢	Township Highway Aid Fund
Withheld from farmers' refunds (8¢ per gallon):	
1¢	Township Highway Aid Fund
2¢	Agricultural Fuel Tax Fund
1¢	Ethanol Production Fund
4¢	Agricultural Research Fund
Withheld from Industrial users' refunds (1½¢ per gallon):	
1¢	Township Highway Aid Fund
½¢	Agricultural Fuel Tax Fund
Special Fuels Tax (23¢ per gallon):	
22¢	Highway Tax Distribution Fund
1¢	Township Highway Aid Fund
Special Fuels Excise Tax (2% of sales price):	
100%	Highway Tax Distribution Fund
Aviation Fuel Tax (8¢ per gallon):	
8¢	Aeronautics Commission Special Fund
Withheld from refunds:	
4%	Aviation fuel excise tax
Aviation Fuel Excise Tax (4% of sales price):	
100%	Aeronautics Commission Special Fund
Highway Tax Distribution Fund	
• 63% allocated to state highway purposes	
• 37% allocated to the counties and cities	

Fuel Taxes and Fees Disbursements

Fiscal Year	Total Disbursement	Highway Distribution Fund	Township Highway Aid Fund	Agricultural Fuel Tax Fund	Agricultural Research Fund	Aeronautics Commission	State General Fund	Petroleum Cleanup Fund	Refund Reserve & Cash Bonds	Standing Rock Sioux Tribe
1996	$101,399,651	$90,701,935	$5,116,927	$453,723		$671,339	$753,321	$2,291	$3,700,115	
1997	110,151,220	98,959,035	5,194,170	388,576		418,576	756,197	0	4,434,327	
1998	112,566,368	98,871,799	5,337,068	380,824	$606,790	617,768	759,724	0	5,992,395	
1999	110,664,269	96,651,826	5,270,153	359,554	714,787	403,793	756,137	0	6,407,500	$100,519
2000	114,861,740	103,873,179	5,193,618	335,040	666,253	752,894	877,782	0	2,884,500	278,474
2001	115,907,986	104,822,117	5,119,576	308,263	612,415	665,638	876,844	0	3,175,500	327,633
2002	114,131,923	103,789,792	5,092,540	286,162	568,231	738,856	864,879	0	2,448,000	343,463
2003	117,605,841	107,425,949	5,229,933	254,788	505,763	693,293	863,943	0	2,310,000	322,172
2004	121,466,700	111,644,818	5,393,334	236,786	470,999	769,785	889,130	0	1,757,500	304,349
2005	124,242,338	113,931,319	5,424,854	217,782	431,112	941,680	903,721	0	2,097,000	294,870
2006	135,038,662	124,741,234	5,311,819	196,400	389,528	1,130,261	881,277	0	2,115,000	273,142

Motor Vehicle Fuels - Gallons Taxed

Year	Fiscal Total Gallons	Refund	Net Gallons
1996	364,861,501	18,270,126	346,591,375
1997	366,144,221	16,171,990	349,972,231
1998	365,493,671	20,189,232	345,304,439
1999	365,389,457	18,854,167	346,535,290
2000	364,472,028	17,610,696	346,861,332
2001	362,611,882	16,117,349	346,494,533
2002	359,176,664	14,965,893	344,210,771
2003	368,973,065	13,418,634	355,554,431
2004	370,923,822	12,338,689	358,585,133
2005	366,130,282	11,182,318	354,947,964
2006	350,779,757	10,510,356	340,269,401

Special Fuels - Gallons Taxed - Per Gallon Tax Rate

Fiscal Year	Total	Refund	Net
1996	155,685,538	6,890,871	148,794,667
1997	162,359,948	8,002,315	154,357,633
1998	169,591,976	12,449,849	157,142,127
1999	168,218,146	11,715,815	156,502,331
2000	162,411,793	4,658,342	157,753,451
2001	159,884,499	341,613	159,542,886
2002	159,899,715	0	159,899,715
2003	166,462,335	0	166,462,335
2004	177,164,572	0	177,164,572
2005	181,293,961	0	181,293,961
2006	165,456,167	17,221	165,438,946

Special Fuels - Gallons Taxed - 2% Excise Tax Rate

Fiscal Year	Total
1996	345,454,406
1997	345,955,287
1998	334,633,528
1999	314,146,274
2000	294,285,846
2001	317,956,120
2002	326,123,925
2003	314,124,119
2004	322,361,843
2005	333,386,326
2006	303,656,667

SOURCE: Office of State Tax Commissioner.

State Motor Fuel Tax Rates
January 1, 2006

	GASOLINE			DIESEL FUEL			GASOHOL			
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Notes
Alabama [1]	16.0	2.0	18.0	19.0		19.0	16.0	2.0	18.0	Inspection fee
Alaska	8.0		8.0	8.0		8.0	0.0		0.0	
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	[3]
Arkansas	21.5		21.5	22.5		22.5	21.5		21.5	
California	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
Connecticut	25.0		25.0	26.0		26.0	25.0		25.0	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT [5]
Florida [2]	4.0	10.9	14.9	16.8	10.9	27.7	4.0	10.9	14.9	Sales tax added to excise [2]
Georgia	7.5	7.8	15.3	7.5	9.0	16.5	7.5	7.8	15.3	Sales tax added to excise
Hawaii [1]	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax applicable
Idaho	25.0	1	26.0	25.0	1	26.0	22.5	1	23.5	Clean water tax [7]
Illinois [1]	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee [3]
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax applicable [3]
Iowa	20.7		20.7	22.5		22.5	19.0		19.0	
Kansas	24.0		24.0	26.0		26.0	24.0		24.0	
Kentucky	17.1	1.4	18.5	14.1	1.4	15.5	17.1	1.4	18.5	Environmental fee [4] [3]
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Maine	25.9		25.9	27.0		27.0	25.9		25.9	[5]
Maryland	23.5		23.5	24.25		24.25	23.5		23.5	
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.55	17.55	17.0	0.55	17.55	17.0	0.55	17.55	Inspection fee
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	26.1	0.9	27.0	26.1	0.9	27.0	26.1	0.9	27.0	Petroleum fee [5]
Nevada [1]	24.0	0.805	24.805	27.0	0.75	27.8	24.0	0.805	24.805	Inspection & cleanup fee
New Hampshire	18.0	1.625	19.625	18.0	1.625	19.625	18.0	1.625	19.625	Oil discharge cleanup fee
New Jersey	10.5	4.0	14.50	13.5	4.0	17.50	10.5	4.0	14.50	Petroleum fee
New Mexico	17.0	1.9	18.9	21.0	1.9	22.9	17.0	1.9	18.9	Petroleum loading fee
New York	8.0	15.9	23.9	8.0	14.15	22.15	8.0	15.9	23.9	Petro. Tax & Sales tax applicable
North Carolina	29.9	0.25	30.15	29.9	0.25	30.15	29.9	0.25	30.15	[4] Inspection tax
NORTH DAKOTA	**23.0**		**23.0**	**23.0**		**23.0**	**23.0**		**23.0**	
Ohio	28.0		28.0	28.0		28.0	28.0		28.0	Plus 3 cents commercial
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon [1]	24.0		24.0	24.0		24.0	24.0		24.0	
Pennsylvania	12.0	19.2	31.2	12.0	26.1	38.1	12.0	19.2	31.2	Oil franchise tax
Rhode Island	30.0	1	31.0	30.0	1	31.0	30.0	1	31.0	LUST tax
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
South Dakota [1]	22.0		22.0	22.0		22.0	20.0		20.0	
Tennessee [1]	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
Vermont	19.0	1.0	20.0	25.0	1.0	26.0	19.0	1.0	20.0	Petroleum cleanup fee
Virginia [1]	17.5		17.5	16.0		16.0	17.5		17.5	[6]
Washington [8]	31.0		31.0	31.0		31.0	31.0		31.0	0.5% privilege tax
West Virginia	20.5	6.50	27.00	20.5	6.50	27.00	20.5	6.50	27.00	Sales tax added to excise
Wisconsin [5]	29.9	3.0	32.9	29.9	3.0	32.9	29.9	3.0	32.9	[5] Petroleum Insp. Fee
Wyoming	13.0	1	14.0	13.0	1	14.0	13.0	1	14.0	License tax
Dist. of Columbia	22.5		22.5	22.5		22.5	22.5		22.5	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	[7] LUST tax

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Tax rates do not include local option taxes. In AL, 1-3 cents; HI, 8 to 11.5 cents; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4 to 9 cents; OR, 1 to 3 cents; SD and TN, 1 cent; and VA 2%.

(2) Local taxes for gasoline and gasohol vary from 5.5 cents to 17 cents (average is 13.4 cents). Plus a 2.07 cent per gallon pollution tax.

(3) Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IN-11 cents, KY-2%(g) 4.7% (d).

(4) Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5 cents + 7%.

(5) Portion of the rate is adjustable based on maintenance costs, sales volume, or cost of fuel to state government.

(6) Large trucks pay an additional 3.5 cents.

(7) Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the maximum 10% ethanol).

(8) Tax rate is scheduled to increase to 34 cents per gallon on July 1, 2006.

CIGARETTE AND TOBACCO TAXES

CURRENT LAW

Cigarette Tax

Imposition and Rates

The cigarette tax is levied at two different tax rates. Cigarettes weighing less than three pounds per thousand are taxed at 22 mills per cigarette or 44¢ for a common package of 20, and 55¢ for a package of 25. Cigarettes weighing more than three pounds per thousand are taxed at 22½ mills per cigarette. Gray market or repatriated cigarettes may not be sold or possessed in North Dakota. "Gray market" or "repatriated" cigarettes are those cigarettes manufactured and packaged in the U.S. for the specific purpose of being exported with intent to be sold outside the U.S., and are brought back illegally into the country and sold. All cigarettes sold must be in packages of 20 or more cigarettes.

Roll-your-own cigarette tobacco is taxed at the cigarette rate. One cigarette equals .09 ounces of roll-your-own tobacco. Sales of bulk roll your own cigarette tobacco are converted to taxable cigarettes. Only tobacco advertised as roll your own is taxed at the cigarette rate.

Both wholesalers and dealers must be licensed by the Attorney General. Wholesalers pay the tax with monthly reports filed with the Tax Commissioner. For administrative compensation, wholesalers who file and pay on time may deduct 1½% of the tax due, up to a maximum of $100 per month.

Distribution of Revenue

Three cents of the 44¢ per package are distributed to the cities based on population and the remainder goes to the State General Fund. Of the 55¢ on the larger packages, 3¾¢ goes to the cities with the remainder to the State General Fund.

Tobacco Products Tax

Imposition and Rates

All tobacco products other than cigarettes and specific roll-your-own tobacco, such as pipe tobacco, chewing tobacco, snuff and cigars are subject to a tobacco products tax. Pipe tobacco and cigars are taxed at 28% of the wholesale purchase price. Snuff is taxed at 60 cents per ounce and chewing tobacco taxed at 16 cents per ounce. The tobacco products tax is administered in a manner similar to the cigarette tax.

Distribution of Revenue

Revenue from the tobacco products tax is placed in the State General Fund.

Tribal Cigarette And Tobacco Tax

The Standing Rock Sioux Tribe levies a cigarette and tobacco tax on all Native American retailers operating on the Standing Rock Sioux Reservation. The tax rates are identical to the state tax rates. The Tax Commissioner acts as the agent of the tribe to collect the tax. Seventy-five percent of collections, less a 3% administrative fee, is returned to the tribe. Twenty-five percent plus the administrative fee is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1983 Session. The cigarette tax was increased from 6 mills to 9 mills per cigarette. This increased the cigarette tax from 12¢ to 18¢ per package of 20.

1987 Session. The cigarette tax was increased from 9 to 13½ mills per cigarette, or from 18¢ to 27¢ per package of 20. The tobacco products tax was increased from 11% to 20% of the wholesale purchase price.

1989 Session. The cigarette tax was increased from 13½ to 15 mills per cigarette, or from 27¢ to 30¢ per package of 20. The tobacco products tax was increased from 20% to 25% of the wholesale purchase price.

1991 Session. The cigarette tax was decreased from 15 mills to 14½ mills per cigarette, or from 30¢ to 29¢ per package of 20. The tobacco products tax was decreased from 25% to 22% of the wholesale purchase price. Cigarette stamp requirements were repealed and replaced with monthly reports and payments.

1993 Session. The cigarette tax was increased from 14½ to 22 mills per cigarette, or from 29¢ to 44¢ per package of 20. The tobacco products tax was increased from 22% to 28% of the wholesale purchase price.

1993 Agreement. The Tax Commissioner and the Standing Rock Sioux Tribe signed an agreement to allow the commissioner to act as an agent of the tribe for the collection of a tribal cigarette and tobacco tax.

1999 Session. The sale of gray market cigarettes was prohibited, taxation of roll-your-own tobacco was moved from Other Tobacco Products to taxation as a cigarette and a minimum package size was established at 20 cigarettes per package. N.D.C.C. § 51-25 was enacted and requires the Tax Commissioner to accumulate information on purchases of cigarettes from non-participating manufacturers in the cigarette Master Settlement Agreement.

2001 Session. The method of taxing snuff and chewing tobacco was changed from a percentage of the wholesale price to a weight based value. Snuff is taxed at 60 cents per ounce and chewing tobacco is taxed at 16 cents per ounce. A change in the definition of Other Tobacco Products removed cigarette papers from the tobacco products tax. Cigars and pipe tobacco remain taxable at 28% of the whole purchase price.

2003 Session. The sale of "beedie" cigarettes was banned. Beedies are a product containing tobacco wrapped in a temburni leaf. Legislation prohibiting any dealer or distributor from knowingly selling or distributing any product not in compliance with N.D.C.C. § 51-25-02 was enacted.

2005 Session. New legislation requires vendors selling cigarettes over the Internet to register with the Tax Commissioner and provide sales and customer information. Internet vendors are also required to verify the age of cigarette customers.

Comparison of State Tobacco Products Taxes

January 1, 2006

State	Tax Rate/Base [1]
Alabama	
Cigars [2]	4.0¢-40.5¢/10 cigars
Tobacco/Snuff	0.6¢-5.25¢/ounce
Alaska	75% Wholesale Price
Arizona	
Cigars [2]	26.3¢-$2.60/20 cigars
Tobacco/Snuff	13.3¢/ounce
Arkansas	32% Manufactures Price
California [3]	46.76% Wholesale Price
Colorado	40% Manufactures Price
Connecticut [5]	20% Wholesale Price
Delaware	15% Wholesale Price
Florida	
Tobacco/Snuff	25% Wholesale Price
Georgia	
Little Cigars	2.5¢/10 cigars
Other Cigars	23% Wholesale Price
Tobacco	10% Wholesale Price
Hawaii	40% Wholesale Price
Idaho	40% Wholesale Price
Illinois	18% Wholesale Price
Indiana	18% Wholesale Price
Iowa	22% Wholesale Price
Kansas	10% Wholesale Price
Kentucky	7.5% Wholesale Price
Louisiana	
Cigars	8%-20% Manufacture Price
Tobacco/Snuff	33% Manufactures Price
Maine	
Chewing Tob./Snuff	78% Wholesale Price
Smoking Tob./Cigars	20% Wholesale Price
Maryland	15% Wholesale Price
Massachusettes	
Smokeless Tob.	90% Wholesale Price
Smoking Tob./Cigars	30% Wholesale Price

State	Tax Rate/Base [1]
Michigan	32% Wholesale Price
Minnesota	70% Wholesale Price
Mississippi	15% Manufactures Price
Missouri	10% Manufactures Price
Montana	50% Wholesale Price
Nebraska	20% Wholesale Price
Nevada	30% Wholesale Price
New Hampshire	19% Wholesale Price
New Jersey	30% Wholesale Price
New Mexico	25% Product Value
New York	37% Wholesale Price
North Carolina	3% Wholesale Price
NORTH DAKOTA	
Cigars & Pipe Tobacco	28% Wholesale Price
Chew Tobacco/Snuff	16¢-60¢/ounce
Ohio	17% Wholesale Price
Oklahoma	
Cigars [2]	27¢-90¢/10 cigars
Tobacco/Snuff	30%-40% factory list price
Oregon	65% Wholesale Price
Rhode Island	40% Wholesale Price
South Carolina	5% Manufactures Price
South Dakota	10% Wholesale Price
Tennessee	6.6% Wholesale Price
Texas	
Cigars [2]	1¢-15¢/10 cigars
Tobacco/Snuff	35.213% Manufactures Price
Utah	35% Manufactures Price
Virginia	10% Wholesale Price
Vermont	41% Manufactures Price
Washington	75% Wholesale Price
West Virginia	7% Wholesale Price
Wisconsin	25% Wholesale Price
Wyoming [4]	20% Wholesale Price

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) The volume based tax rates were converted to cents per 10 cigars or per ounce for consistency.
(2) Tax rate on cigars varies, based on the selling price.
(3) Tax rate is adjusted annually by the state, effective July 1st of each year
(4) or 10% of the retail price.
(5) Snuff tobacco taxed at 40 cents per ounce.

Cigarette Tax and Tobacco Tax Collections

Fiscal Year	Total Collections	Tobacco Tax (General Fund)	Cigarette Tax (General Fund)	Cigarette Tax (Cities)	Cigarette and Tobacco Tax (Tribal)
1996	24,403,150	1,634,213	21,149,970	1,545,546	73,421
1997	23,872,859	1,746,105	20,554,980	1,502,113	69,661
1998	24,293,434	1,847,905	20,846,708	1,523,488	75,534
1999	23,026,300	1,891,262	19,619,122	1,440,232	75,684
2000	22,825,622	1,983,222	19,359,086	1,414,712	68,602
2001	21,777,568	2,040,283	18,299,504	1,339,190	98,591
2002	21,541,087	2,233,271	17,913,354	1,313,836	80,626
2003	20,432,947	2,276,308	16,873,241	1,220,881	62,517
2004	21,134,603	2,297,901	17,477,510	1,284,013	75,179
2005	21,036,995	2,452,912	17,248,389	1,260,003	75,691
2006	23,457,650	2,707,489	19,278,592	1,407,166	64,403
2007 est.	24,761,000	2,821,000	20,384,000	1,492,000	64,000

SOURCE: North Dakota Office of State Tax Commissioner

State Excise Tax Rates on Cigarettes
January 1, 2006

State	Cents Per Pack	State	Cents Per Pack	State	Cents Per Pack
Rhode Island	246	Oklahoma	103	Delaware	55
New Jersey	240	Maryland	100	West Virginia	55
Washington	202.5	DC	100	South Dakota	53
Maine	200	Illinois	98	**NORTH DAKOTA**	**44**
Michigan	200	New Mexico	91	Alabama	42.5
Montana	170	California	87	Texas	41
Alaska	160	Colorado	84	Georgia	37
Connecticut	151	Nevada	80	Iowa	36
Massachusetts	151	New Hampshire	80	Louisiana	36
New York (1)	150	Kansas	79	Florida	33.9
Hawaii	140	Wisconsin	77	Kentucky (2)	30
Pennsylvania	135	Utah	69.5	North Carolina (3)	30
Ohio	125	Nebraska	64	Virginia	30
Minnesota (4)	123	Wyoming	60	Tennessee (1)(2)	20
Vermont	119	Arkansas	59	Mississippi	18
Arizona	118	Idaho	57	Missouri (1)	17
Oregon	118	Indiana	55.5	South Carolina	7
				U.S. (median)	80.0

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC, 1.50¢; TN, 1¢; and VA, 2¢ to 15¢.

(2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN. In AR, a $1.25/1,000 cigarette fee is imposed.

(3) Tax Rate is scheduled to increase to 35 cents per pack on July 1, 2006.

(4) Plus an additional 25.5 cent sales tax is added to the wholesale price of a tax stamp (total $1.485).

ESTATE TAX

CURRENT LAW

Imposition and Rate

The estate tax is a tax on the value of an estate transferred at death.

North Dakota's estate tax is perpetually "federalized". North Dakota's definition of a deceased person's "taxable estate" is identical to the federal definition and North Dakota recognizes all federal exemptions and deductions.

North Dakota's estate tax is equivalent to the credit for state death taxes allowed on the federal estate tax return (or a percentage of that credit equal to the percentage of property located in North Dakota). On the federal return, the credit for state death taxes is allowed as a credit against the federal tax liability. The estate pays the amount of this credit to the state. This method of determining state estate taxes ensures that estates pay no more in total estate taxes than the estate's federal tax liability. The tax is payable without interest for 15 months from the date of death.

The estate tax is administered and collected by the Tax Commissioner.

Distribution of Revenue

Revenue from the tax is distributed on a quarterly basis by the state to the counties and cities in which the property of the estate is located.

Federal Legislation
As a result of federal estate tax law changes, the North Dakota estate tax that is based on the state death tax credit allowable on the federal return has been phased out for estates of decedents whose death occurs after December 31, 2004. Future changes to the state or federal estate tax laws will determine whether North Dakota estate tax is due.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The definition of taxable estate is based on the federal definition. The estate tax was determined by subtracting the federal tax paid from the federal taxable estate, then computing a tax using a tax table established in the new law.

1977 Session. The legislature allowed the following state exemptions and deductions to the value of the federal taxable estate: an exemption of $200,000, a deduction for federal estate taxes paid, and an exemption for certain gifted property. The legislature also provided that the tax was either the amount of tax credit for state death taxes on the federal return, or a tax computed by use of a tax table, whichever was greater.

1979 Session. The rate table was repealed and the law was amended so that the state estate tax is equal to the credit for state death taxes on the federal estate tax return.

1991 Session. The automatic estate tax lien was repealed.

1997 Session. The requirement for depositories to file an inventory of the contents of a safe deposit box and for the filing of a notice of transfer of the decedent's assets was repealed.

1999 Session. The requirement for the register of deeds to forward copies of death certificates and property descriptions was repealed.

Estate Tax Collections

Calendar Year	Total Collections
1997	$4,807,731
1998	4,718,269
1999	7,420,920
2000	6,079,686
2001	5,237,136
2002	5,407,080
2003	7,389,834
2004	3,173,650
2005	2,109,496
2006	1,086,192

SOURCE: North Dakota Office of State Tax Commissioner

FINANCIAL INSTITUTION TAX

CURRENT LAW

Imposition and Rates

The financial institution tax is imposed on banks, trust companies, building and loan associations, bank holding companies, production credit associations, leasing companies, and other financial institutions.

The financial institution tax is imposed on every financial institution for the privilege of transacting, or the actual transacting of, business in North Dakota and is based upon and measured by the financial institution's taxable income. If a financial institution conducts business both within and without North Dakota, the financial institution must apportion its business income to North Dakota according to the apportionment provisions.

The tax liability is determined by multiplying North Dakota taxable income by seven percent (7%), with a minimum tax of fifty dollars ($50.00). This amount, less credits allowed is divided between the State General Fund and the financial institution tax distribution fund. The net tax payable to the State General Fund must be paid on or before April 15 of the year following the end of the taxable year. The net tax payable to the financial institution distribution fund must be paid on or before January 15 of the second year following the end of the taxable year. Both payments must be made to the Office of State Tax Commissioner.

If a financial institution elects and is granted Subchapter S corporation status for federal income tax purposes, the Subchapter S status is not recognized for financial institution tax purposes and the corporation must file a financial institution tax return and pay the tax. In this case, a shareholder—limited to an individual, estate or trust—is allowed an adjustment to income in computing the shareholder's North Dakota income tax liability. The adjustment, which is equal to the portion of the income passed through to the shareholder and subject to North Dakota income tax, prevents the financial institution's income from being taxed at the financial institution level and the individual, estate or trust level.

HISTORICAL OVERVIEW

Significant Changes in Law

1979 Session. The 1% business privilege tax paid by individuals, estates, trusts, partnerships and corporations doing business in the state was repealed.

1991 Session. A state net operating loss was allowed to be carried forward. Out-of-state banks were allowed to acquire a North Dakota bank if the acquiring company was in a reciprocating state and the Tax Commissioner was authorized to determine a fair method of reporting income to North Dakota. Privilege taxes were authorized on North Dakota branches if the U.S. Congress authorized interstate branch banking.

1995 Session. Interstate banking, in-state branching, and interstate branching were authorized. A trust company was allowed to establish for itself and its subsidiaries places of business within or outside North Dakota.

1997 Session. Taxation of banks, trust companies and building or savings and loan associations was repealed and replaced with a financial institution tax.

1999 Session. Cities were provided authority to create "renaissance zones," which allowed opportunities for various income exemptions and tax credits for investments in approved renaissance zones.

2001 Session. An exemption was provided for income from property located in a renaissance zone and owned or leased for either a business or investment purpose. This exemption also extended to qualifying rehabilitations of residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed $250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

2003 Session. Financial institutions tax changed to maintain the deduction for federal income taxes paid. The deduction had previously been allowed by reference to the income tax law. The change was necessary because the deduction was repealed for income tax. For tax years after December 31, 1999, the exclusion for the North Dakota domestic dividend was repealed based on a North Dakota Supreme Court ruling.

2005 Session. A new financial institution tax credit was created for making a contribution to fund a tuition scholarship for participation in the Rural Leadership North Dakota program conducted through the North Dakota State University Extension Service.

Financial institutions that are members of a unitary group, and conduct 100% of their business in North Dakota are now required to file a combined report.

Financial Institution Tax*

Tax Year	Total	To Counties	To General Fund
1997	$9,497,300	$6,895,541	$2,601,756
1998	9,949,737	7,132,518	2,817,219
1999	10,521,920	7,515,657	3,006,263
2000	10,800,647	7,714,748	3,085,899
2001	10,195,583	6,152,158	4,043,425
2002	10,627,138	6,808,992	3,818,146
2003	10,241,423	7,135,229	3,106,194
2004	9,690,881	6,830,163	2,860,718

* The tax year 2005 collections are not final at the time of printing this publication.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by 7%. This amount, which may not be less than $50.00, is divided between the state general fund and the financial institution tax distribution fund. The general fund receives 2/7 of the tax, while the financial institution tax distribution fund receives 5/7 of the tax.

The tax collected in the financial institution tax distribution fund is distributed to the counties on or before March 1 each year.

Distribution of Financial Institution Tax*

County	Percentage	County	Percentage
Adams	0.2968%	McKenzie	1.1826%
Barnes	2.2119%	McLean	1.3533%
Benson	0.3919%	Mercer	1.3538%
Billings	0.0310%	Morton	2.1364%
Bottineau	1.8718%	Mountrail	1.7976%
Bowman	1.1325%	Nelson	1.0597%
Burke	0.4819%	Oliver	0.1855%
Burleigh	6.0739%	Pembina	2.1623%
Cass	19.2636%	Pierce	1.0727%
Cavalier	1.6172%	Ramsey	2.5621%
Dickey	0.9295%	Ransom	1.3457%
Divide	0.8446%	Renville	0.3585%
Dunn	0.4347%	Richland	2.7733%
Eddy	0.1709%	Rolette	1.0018%
Emmons	1.2017%	Sargent	1.3122%
Foster	0.9723%	Sheridan	0.2813%
Golden Valley	0.5355%	Sioux	0.0054%
Grand Forks	8.6988%	Stark	4.2348%
Grant	0.3913%	Steele	0.5824%
Griggs	0.9247%	Stutsman	3.4793%
Hettinger	0.5873%	Towner	0.5375%
Kidder	0.4219%	Traill	0.9871%
LaMoure	0.7904%	Walsh	2.5128%
Logan	0.7964%	Ward	7.5118%
McHenry	0.5434%	Wells	1.3501%
McIntosh	1.1903%	Williams	4.0541%

* Money in the Financial Institution Tax Distribution Fund is divided among the counties based on these percentages.

INSURANCE PREMIUM TAX

CURRENT LAW

Imposition, Rates and Administration

Every insurance company licensed to do business in North Dakota is subject to a premium tax on the gross amount of its annual premiums, membership fees, and policy fees received from North Dakota policyholders. The premium tax rate is 2% for life insurance, and 1¾% for accident, health, property, casualty and surplus lines of insurance. A company domiciled in another state may be charged retaliatory tax--the tax rate of the home state--if the rate in the home state is higher than North Dakota's applicable premium tax rate.

A minimum $200 annual filing fee is required provided the total tax liability of an entity required to pay tax is less than $200.

The insurance premium tax is administered by the State Insurance Commissioner and is collected quarterly.

Exemptions and Credits

Gross receipts from annuities and from policies of benevolent and fraternal benefit companies are exempt. Credits against tax due are provided to insurers for the following situations:

- Assessment paid as a member of a comprehensive health association.
- Examination fees paid to the North Dakota Insurance Department.
- Ad valorem taxes on the premises occupied as the principal office in the state for over 50% of the year for which tax is paid.
- Investments in securities offered by a small business investment company created by the Myron G. Nelson Fund, Inc.
- Assessment paid to the Life and Health Insurance Guaranty Association.
- Insurers making or participating in incentive fund to make loans to low-risk businesses for primary sector business projects (N.D.C.C. ch. 26.1-50).

Distribution of Revenue

Collections are deposited in the State General Fund. The legislature may appropriate insurance premium tax revenue to the Insurance Tax Distribution Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1983. Out-of-state insurance companies were subject to a 2½% premium tax. North Dakota insurance companies were subject to corporation income tax, rather than insurance premium tax.

1983 Session. Insurance companies doing business in the state, whether incorporated in North Dakota or any other state, became subject to the insurance premium tax and exempt from the corporation income tax. The legislature provided for a 2% rate for life insurance, ½% for accident and health insurance, and 1% for property, casualty and other types of insurance.

1987 Session. The legislature increased the insurance premium tax rate from ½% to 1¼% for accident and health insurance and from 1% to 1¼% for property, casualty and other insurance. A credit was created for investments in the Myron G. Nelson Fund, Inc.

1989 Session. The legislature increased the insurance premium tax rate from 1¼% to 1¾% for accident, health, property, casualty and other types of insurance.

1991 Session. The legislature adopted a $200 annual filing fee for all insurance companies.

1997 Session. A credit was created for any insurance company making or participating in a loan under the North Dakota Low-Risk Incentive Fund (see N.D.C.C. ch. 26.1-50-05.)

1999 Session. The method for calculating a penalty for failure to pay tax was changed.

Insurance Premium Tax Collections and Disbursements

Fiscal Year	Total Collections	General Fund	Insurance Distribution Fund
1994	20,754,641	18,124,492	2,630,149
1995	16,690,729	13,995,743	2,694,986
1996	19,578,122	16,978,122	2,600,000
1997	20,796,911	18,196,911	2,600,000
1998	19,957,574	17,357,574	2,600,000
1999	20,975,742	18,375,742	2,600,000
2000	21,893,086	19,293,086	2,600,000
2001	22,419,513	19,819,513	2,600,000
2002	25,999,204	23,347,204	2,652,000
2003	28,294,823	25,642,823	2,652,000
2004	30,928,373	28,276,373	2,652,000
2005	30,671,102	28,019,102	2,652,000

SOURCE: North Dakota Insurance Department

Insurance Premium Tax Collections Per Capita - Fiscal Year 2005

Rank	State	Per Capita Insurance Premium Taxes
1	Nevada	$89
2	Kentucky	$86
3	Vermont	$84
4	Delaware	$82
5	Louisiana	$80
6	Alaska	$80
7	South Dakota	$74
8	Hawaii	$68
9	Connecticut	$68
10	Arizona	$67
11	Montana	$65
12	Massachusetts	$63
13	West Virginia	$62
14	California	$62
15	Maine	$61
16	New Hampshire	$61
17	Idaho	$61
18	Minnesota	$61
19	Tennessee	$60
20	Alabama	$60
21	Washington	$57
22	Mississippi	$56
23	Pennsylvania	$54
24	New Jersey	$52
25	New York	$51
26	Texas	$51
27	North Carolina	$51
28	Rhode Island	$50
29	Missouri	$50
30	New Mexico	$50
31	Virginia	$49
32	Oklahoma	$49
33	Utah	$48
34	**North Dakota**	**$48**
35	Maryland	$48
36	Arkansas	$45
37	Kansas	$44
38	Iowa	$44
39	Florida	$43
40	Colorado	$41
41	Wyoming	$39
42	Ohio	$38
43	Georgia	$37
44	South Carolina	$30
45	Indiana	$30
46	Illinois	$29
47	Wisconsin	$26
48	Michigan	$25
49	Nebraska	$22
50	Oregon	$15
	US Average	$50

SOURCE: US Dept. of Commerce, Census Bureau Department.

CURRENT LAW

Imposition and Administration

The tax on liquor and beer is a privilege tax imposed on all alcoholic beverage wholesalers doing business in North Dakota. In addition, microbrew pubs and domestic wineries pay the taxes on alcoholic beverages made by those facilities and sold directly to consumers. The pub or wineries may not engage in any wholesaling activities. The State Tax Commissioner administers the tax and licenses wholesalers, microbrew pubs, and domestic wineries. The tax is collected on a monthly basis.

Exemptions

If the alcohol is used for non-beverage purposes, it is exempt from the tax. These exemptions include:

- Denatured alcohol
- Patent, proprietary, medical, pharmaceutical, antiseptic and toilet preparations
- Flavoring extracts
- Syrups and food products
- Scientific chemical and industrial products
- Wines delivered to priests, rabbis and ministers for sacramental use

Rates

The amount of the tax is determined by the type of beverage and the gallonage sold by a wholesaler. The tax rate schedule is as follows:

	Per Wine Gallon
Beer in bulk containers	$ .08
Beer in bottles and cans	$ .16
Wine (less than 17% alcohol)	$ .50
Wine (17% to 24% alcohol)	$ .60
Sparkling wine	$ 1.00
Distilled Spirits	$ 2.50
Alcohol	$ 4.05

Distribution of Revenue

Revenue from the liquor and beer tax is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1967 Session. The alcoholic beverage tax law was rewritten and the tax rates were restructured.

1991 Session. Microbrew pubs became subject to the liquor and beer tax.

1995 Session. Bonding repealed.

1995 Session. Microbrew pubs became subject to new licensing requirements.

1999 Session. Establish penalties for the shipping of out-of-state sales of alcoholic beverages from an out-of-state location directly to a person in North Dakota who is not a wholesaler.

2001 Session. The wholesale alcoholic beverage administration was transferred from the state treasurer to the state tax commissioner effective July 1, 2001. Effective August 1, 2001, direct shippers of alcoholic beverages and farm wineries are required to obtain annual licenses and pay the wholesaler and applicable retailer taxes to the state tax commissioner.

2003 Session. The alcoholic beverages law was amended to replace "farm winery" with "domestic winery."

2005 Session. Suppliers became subject to new licensing requirements. Brand registration requirements were repealed. Thresholds for point-of-sale and dispensing equipment provided by wholesalers to retailers were increased. The percentage volume of North Dakota produced ingredients that must be included in wine produced by a domestic winery was defined.

Liquor and Beer Taxes Collections

Fiscal Year	Total Collections	Beer	Liquor
1996	5,175,220	2,420,748	2,754,401
1997	5,162,187	2,433,513	2,728,674
1998	5,269,318	2,497,087	2,772,231
1999	5,267,588	2,527,312	2,740,276
2000	5,420,486	2,578,923	2,841,563
2001	5,455,921	2,568,513	2,887,408
2002	5,493,783	2,603,197	2,890,586
2003	5,662,052	2,640,908	3,021,144
2004	5,910,349	2,727,660	3,182,689
2005	5,979,513	2,638,956	3,340,557
2006	6,340,589	2,727,263	3,613,326
2007 est.	6,245,000	2,650,000	3,595,000

SOURCE: Office of State Tax Commissioner.

Comparison of State Tax Rates - Beer
January 1, 2006

State	State Rate on Beer ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$0.53	Yes	$0.52/gallon local tax
Alaska	1.07	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2% - $0.16/gallon; $0.008/gallon and 3% off- and 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	$2.67¢/12 ounces on-premise retail tax
Georgia	0.32	Yes	$0.53/gallon local tax
Hawaii	0.93	Yes	$0.54/gallon draft beer
Idaho	0.15	Yes	over 4% - $0.45/gallon
Illinois	0.185	Yes	$0.16/gallon in Chicago and $0.06/gallon in Cook County
Indiana	0.115	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax
Kentucky	0.08	Yes	* 11% wholesale tax
Louisiana	0.32	Yes	$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes	* 0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	--	under 3.2% - $0.077/gallon. 9% sales tax
Mississippi	0.4268	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.31	Yes	
Nevada	0.16	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York (1)	0.11	Yes	$0.12/gallon in New York City
North Carolina	0.53	Yes	$0.48/gallon bulk beer
NORTH DAKOTA	0.16	--	7% state sales tax, bulk beer $0.08/gallon
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2% - $0.36/gallon; $1.00/case on-premise and 13.5% on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.10	Yes	$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.14	Yes	17% wholesale tax
Texas	0.19	Yes	over 4% - $0.198/gallon, 14% on-premise and $0.05/drink on airline sales
Utah	0.41	Yes	over 3.2% - sold through state store
Vermont	0.265	No	6% to 8% alcohol - $0.55; 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.261	Yes	
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
District of Columbia	0.09	Yes	8% off- and 9% on-premise sales tax
U.S. (median)	$0.188		

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2006.

Comparison of State Tax Rates - Wine

January 1, 2006

State	State Rate on Wine ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$1.70	Yes	Over 14% - sold through state store
Alaska	2.50	n.a	
Arizona	0.84	Yes	
Arkansas	0.75	Yes	under 5% - $0.25/gallon; $0.05/case; and 3% off- and 10% on-premise
California	0.20	Yes	sparkling wine - $0.30/gallon
Colorado	0.32	Yes	
Connecticut	0.60	Yes	over 21% and sparkling wine - $1.50/gallon
Delaware	0.97	n.a.	
Florida	2.25	Yes	over 17.259% - $3.00/gallon, sparkling wine $3.50/gallon $6.67¢/4 ounces on-premise retail tax
Georgia	1.51	Yes	over 14% - $2.54/gallon; $0.83/gallon local tax
Hawaii	1.38	Yes	Sparkling wine - $2.12/gallon and wine coolers - $0.85/gallon
Idaho	0.45	Yes	
Illinois	0.73	Yes	over 20% - $4.50/gallon; $0.246/gallon in Chicago and ($0.16-$0.30)/gallon in Cook County
Indiana	0.47	Yes	over 21% - $2.68/gallon
Iowa	1.75	Yes	under 5% - $0.19/gallon
Kansas	0.30	No	over 14% - $0.75/gallon; 8% off- and 10% on-premise
Kentucky	0.50	Yes *	11% wholesale
Louisiana	0.11	Yes	14% to 24% - $0.23/gallon, over 24% and sparkling wine - $1.59/gallon
Maine	0.60	Yes	over 15.5%-sold through state stores, sparkling wine - $1.25/gallon additional 5% on-premise sales tax
Maryland	0.40	Yes	
Massachusetts	0.55	Yes *	sparkling wine - $0.70/gallon
Michigan	0.51	Yes	over 16% - $0.76/gallon
Minnesota	0.30	--	14% to 21% - $0.95/gallon, under 24% and sparkling wine $1.82/gallon; $0.01/bottle (except miniatures) and 9% sales tax
Mississippi	0.35	Yes	over 14% and sparkling wine - sold through the state
Missouri	0.30	Yes	
Montana	1.06	n.a.	over 16% - sold through state stores; 7% surtax
Nebraska	0.95	Yes	
Nevada	0.70	Yes	14% to 22% - $1.30/gallon, over 22% - $3.60/gallon
New Hampshire	see footnote (1)	n.a.	
New Jersey	0.70	Yes	
New Mexico	1.70	Yes	over 14% - $5.68/gallon
New York	0.19	Yes	
North Carolina	0.79	Yes	over 17% - $0.91/gallon
NORTH DAKOTA	0.50	--	over 17% - $0.60/gallon, sparkling wine - $1.00/gallon; 7% state sales tax
Ohio	0.30	Yes	over 14% - $0.98/gallon, vermouth - $1.08/gallon and sparkling wine - $1.48/gallon
Oklahoma	0.72	Yes	over 14% - $1.40/gallon, sparkling wine - $2.08/gallon; $1.00/bottle on-premise and 13.5% on-premise
Oregon	0.67	n.a.	over 14% - $0.77/gallon
Pennsylvania	see footnote (1)	Yes	
Rhode Island	0.60	Yes	sparkling wine - $0.75/gallon
South Carolina	0.90	Yes	$0.18/gallon additional tax
South Dakota	0.93	Yes	14% to 20% - $1.45/gallon; over 21% and sparkling wine - $2.07/gallon; 2% wholesale tax
Tennessee	1.21	Yes	$0.15/case and 15% on-premise
Texas	0.20	Yes	over 14% - $0.408/gallon and sparkling wine - $0.516/gallon 14% on-premise and $0.05/drink on airline sales
Utah	see footnote (1)	Yes	
Vermont	0.55	Yes	over 16% - sold through state store, 10% on-premise sales tax
Virginia	1.51	Yes	under 4% - $0.2565/gallon and over 14% - sold through state store
Washington	0.87	Yes	over 14% - $1.72/gallon;
West Virginia	1.00	Yes	5% local tax
Wisconsin	0.25	Yes	over 14% - $0.45/gallon
Wyoming	see footnote (1)	Yes	
District of Columbia	0.30	Yes	8% off- and 9% on-premise sales tax, over 14% - $0.40/gallon and sparkling - $0.45/gallon
U.S. (median)	0.69		

(1) All wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2006.

Comparison of State Tax Rates - Distilled Spirits

January 1, 2006

State	State Rate on Spirits ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	see footnote [1]	Yes	
Alaska	$12.50	n.a.	under 21% - $0.85/gallon
Arizona	3.00	Yes	
Arkansas	2.50	Yes	under 5% - $0.50/gallon, under 21% - $1.00/gallon; $0.20/case and 3% off-14% on-premise retail taxes
California	3.30	Yes	over 50% - $6.60/gallon
Colorado	2.28	Yes	
Connecticut	4.50	Yes	under 7% - $2.05/gallon
Delaware	5.46	n.a.	under 25% - $3.64/gallon
Florida	6.50	Yes	under 17.259% - $2.25/gallon, over 55.780% - $9.53/gallon $6.67¢/ounce on-premise retail tax
Georgia	3.79	Yes	$0.83/gallon local tax
Hawaii	5.98	Yes	
Idaho	see footnote [1]	Yes	
Illinois	4.50	Yes	under 20% - $0.73/gallon; $1.845/gallon in Chicago and $2.00/gallon in Cook County
Indiana	2.68	Yes	under 15% - $0.47/gallon
Iowa	see footnote [1]	Yes	
Kansas	2.50	No	8% off- and 10% on-premise retail tax
Kentucky	1.92	Yes *	under 6% - $0.25/gallon; $0.05/case and 11% wholesale tax
Louisiana	2.50	Yes	under 6% - $0.32/gallon
Maine	see footnote [1]	Yes	
Maryland	1.50	Yes	
Massachusetts	4.05	Yes *	under 15% - $1.10/gallon; over 50% alcohol - $4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote [1]	Yes	
Minnesota	5.03	--	$0.01/bottle (except miniatures) and 9% sales tax
Mississippi	see footnote [1]	Yes	
Missouri	2.00	Yes	
Montana	see footnote [1]	n.a.	
Nebraska	3.75	Yes	
Nevada	3.60	Yes	under 14% - $0.70/gallon and under 21% - $1.30/gallon
New Hampshire	see footnote [1]	n.a.	
New Jersey	4.40	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	under 24% - $2.54/gallon; $1.00/gallon in New York City
North Carolina	see footnote [1]	Yes *	
NORTH DAKOTA	2.50	--	7% state sales tax
Ohio	see footnote [1]	Yes	
Oklahoma	5.56	Yes	$1.00/bottle on-premise and 13.5% on-premise
Oregon	see footnote [1]	n.a.	
Pennsylvania	see footnote [1]	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	$5.36/case and 9% surtax
South Dakota	3.93	Yes	under 14% - $0.93/gallon, 2% wholesale tax
Tennessee	4.40	Yes	$0.15/case and 15% on-premise; under 7% - $1.21/gallon
Texas	2.40	Yes	14% on-premise and $0.05/drink on airline sales
Utah	see footnote [1]	Yes	
Vermont	see footnote [1]	No	10% on-premise sales tax
Virginia	see footnote [1]	Yes	
Washington	see footnote [1]	Yes *	
West Virginia	see footnote [1]	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote [1]	Yes	
District of Columbia	1.50	Yes	8% off- and 9% on-premise sales tax
U.S. (median)	$3.75		

[1] In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor profits.

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2006.

GAMING TAXES

CURRENT LAW

Imposition and Rates

<u>Gaming Taxes.</u> A gaming tax is levied each quarter on the total adjusted gross proceeds from games of chance conducted by licensed organizations. "Adjusted gross proceeds" is gross proceeds less prizes, North Dakota excise tax, federal excise tax, and bingo sales tax. The gaming tax rates are:

Adjusted Gross Proceeds	Rate
Up to $ 200,000	5%
$ 200,000 to $ 400,000	10%
$ 400,000 to $ 600,000	15%
Over $ 600,000	20%

In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs. The Attorney General administers the taxes.

<u>Pari-mutuel Taxes.</u> On the first $11 million wagered a pari-mutuel tax is levied upon total wagers placed at live and simulcast (off-track betting) race performances as follows:
- 2% of total wagers in the pari-mutuel pools for win, place and show.
- 2.5% of total wagers in the pari-mutuel pool for other wagers combining two or more horses.

In addition, 1.0% of all wagers is deducted for deposit in each of two special funds, and 1.5% of wagers combining two or more horses is deducted for deposit in three special funds.

Pari-mutuel Taxes on wagering handle in excess of $11 million in each biennium, one-sixteenth of one percent must be paid to the commission to be deposited in the purse fund; one-sixteenth of one percent must be paid to the commission to be deposited in the promotion fund; one-sixteenth of one percent must be paid to the commission to be deposited in the breeders' fund; and one-sixteenth of one percent must be paid to the state treasurer to be deposited in the general fund.

Pari-mutuel taxes and special funds are administered by the North Dakota Racing Commission.

Gaming Regulation

Certain organizations which conduct only limited sports pools, raffles, bingo, paddlewheels, twenty-one, or poker may be issued a local permit or charity local permit by a city or county.

In other instances, organizations must receive a license from the Attorney General to conduct games. The maximum number of sites an organization may operate is 25. The Attorney General conducts criminal history record checks of all potential new employees. Persons who have committed any felony or certain misdemeanor offenses are prohibited from being an employee in the gaming industry.

All net proceeds from games must be disbursed to educational, charitable, patriotic, fraternal, religious or public-spirited uses. "Net proceeds" is adjusted gross proceeds less allowable expenses and gaming tax. "Allowable expenses" per quarter are generally limited to 51% of the first $200,000 of adjusted gross proceeds and 45% of adjusted gross proceeds over $200,000, plus 2.5% of gross proceeds of pull tabs and cost of video surveillance equipment.

Organizations may conduct games of poker, twenty-one, punchboards, pull tabs, bingo, raffles, calcuttas, paddlewheels, and sports pools. Video surveillance systems are required at sites where twenty-one wagers exceed $2 and gross proceeds from twenty-one activity exceed $10,000 per quarter. Organizations may use dispensing devises to conduct pull tabs and have bar employees redeem players' winning pull tabs.

Distribution of Revenue

<u>Gaming Taxes.</u> Revenue from the gaming and excise taxes is deposited in the State General Fund. For the 2003-05 biennium, the legislature appropriated up to $617,000 of these taxes for cities and counties for gaming enforcement.

Pari-mutuel Taxes. Revenue from the pari-mutuel tax is distributed to the State General Fund. Revenues from the deductions are deposited in special funds used for promotion of the racing industry in North Dakota. These funds are the Purse Fund, the Breeders' Fund and the Race Promotion Fund. Unclaimed tickets and breakage are retained in the Race Promotion Fund. For wagering handle in excess of $11 million in each biennium, breakage must be divided, one-third to the North Dakota racing commission to be deposited in the promotion fund, one-third to the charity operating the site where the wagers are placed, and one-third to the service provider.

HISTORICAL OVERVIEW

Significant Changes in Law

1977 Session. Bingo, raffles, pull tabs, punchboards and sports pools were legalized. The gaming tax was established at 3% of adjusted gross proceeds.

1979 Session. The gaming tax rate was increased from 3% to 5% of adjusted gross proceeds.

1981 Session. The game of twenty-one with a $2 maximum wager was legalized.

1983 Session. The tax rate was changed from 5% of adjusted gross proceeds to 5% on the first $600,000 of adjusted gross proceeds and 20% on adjusted gross proceeds over $600,000 per quarter.

1987 Session. The legislature legalized games of poker and on-track pari-mutuel wagering.

1989 Session. The game of calcuttas for certain North Dakota sporting events was legalized. The maximum wager for the game of twenty-one was increased from $2 to $5. Off-track simulcast pari-mutuel betting was legalized. The legislature changed the gaming tax rates on adjusted gross proceeds. A 2% excise tax was imposed on pull tab gross proceeds.

1991 Session. The game of paddlewheels was legalized with a $2 maximum wager. Employees of bars were authorized to assist organizations that conduct pull tabs using dispensing devices. The State Gaming Commission was created.

1993 Session. The excise tax on pull tab gross proceeds was increased from 2% to 4.5%. Organizations were required to install a video surveillance system at certain sites for the game of twenty-one.

1995 Session. The work permit system was replaced by a law that enables the Attorney General's Office to conduct criminal history record checks of all potential new employees of organizations and distributors. Two and one-half percent of gross proceeds of pull tabs was added to the allowable expense limit for organizations.

1997 Session. For the game paddlewheels, in which prizes are a variable multiple of the players' wagers, chips rather than paper tickets were authorized to be used. The organizations' allowable expense limit was increased for capital expenditures for security or video surveillance equipment. The license fee for manufacturers' of pull tabs, paper bingo cards, and or dispensing devices was increased to $4,000. The Department of Human Services received an appropriation of $150,000 to outsource contract for compulsive gambling prevention, awareness, crises intervention, rehabilitation, and treatment services.

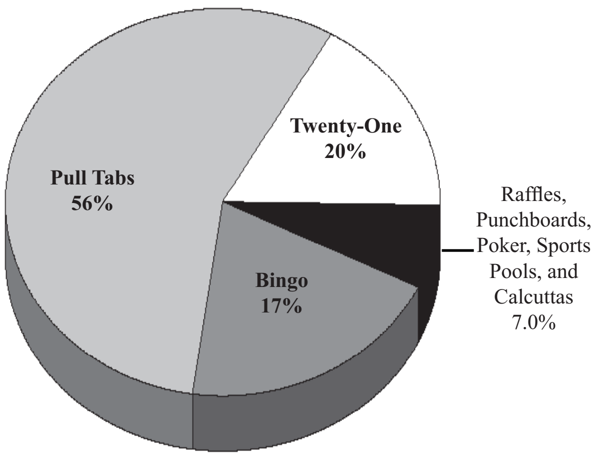
1999 Session. The maximum monthly rent that an organization may pay a bar owner for conducting pull tabs or operating a dispensing device on a site increased. The attorney general was authorized to require certain organizations to make estimated gaming and excise tax payments.

2001 Session. Bingo halls and on-site food concessions were restricted from operating between the hours of 12 midnight Saturday through 12 noon on Sunday. Employees of bars were authorized to sell raffle tickets for organizations that are authorized to conduct games at those bars. Manufacturers of paper bingo cards and pull tabs were generally required to sell their products to all licensed distributors.

2003 Session. Authority was granted to the Attorney General's Office to allow an organization to pay delinquent tax, interest, and penalty on an installment plan. The license fee for manufacturers of pull tab dispensing devices only was reduced from $4,000 to $1,000. Employees of bars were authorized to provide limited assistance to organizations in the conduct of sports pools.

2005 Session. For a raffle, on not more thane one occasion per year a licensed organization may, at the request of a winning player, exchange a merchandise prize valued at not more than $25,000 for a cash prize.

Percentage Breakdown By Game
Total "Gaming" Tax Revenue
Fiscal Year 2005



SOURCE: Attorney General's Office, Gaming Division.

Gaming Tax Collections
Levied on Total Adjusted Gross Proceeds

Fiscal Year	Total Collections
1996	3,343,000
1997	3,124,000
1998	3,345,000
1999	3,056,000
2000	3,178,000
2001	2,965,000
2002	3,520,000
2003	3,537,000
2004	3,432,000
2005	3,361,000
2006 (estimate)	3,200,000

Excise Tax Collections
Levied on Gross Proceeds of Pull Tabs

Fiscal Year	State General Fund
1996	8,280,000
1997	8,061,000
1998	8,201,000
1999	7,473,000
2000	7,291,000
2001	7,041,000
2002	6,774,000
2003	6,715,000
2004	6,483,000
2005	6,361,000
2006 (estimate)	6,250,000

Pari-mutuel Racing Tax Collections*
Levied on On- and Off-Track Horse Racing

Fiscal Year	State General Fund
1995	107,000
1996	121,000
1997	99,000
1998	143,000
1999	245,000
2000	2,971,000
2001	3,875,000
2002	3,606,000
2003	4,461,000
2004	111,964
2005	253,268

* Horse racing taxes are deposited in the General Fund. Several other portions of wagers are distributed to other racing-related funds and are not included in the table.

SOURCE: Attorney General's Office, Gaming Division; and North Dakota Racing Commission. [NOTE: The tax collections exclude the effect of refunds which are immaterial.]

NORTH DAKOTA LOTTERY

CURRENT LAW

On November 5, 2002, North Dakota citizens approved a constitutional amendment that enabled the state to participate in multi-state lottery games. The 2003 Legislative Assembly passed House Bill No. 1243 that became law on April 4, 2003. This law, Chapter 53-12.1 (Lottery) of the North Dakota Century Code, created the North Dakota Lottery as a division within the Office of Attorney General. The law restricts the Lottery to multi-state online games. The administrative rules, Chapter 10-16 (Multi-State Lottery) of the North Dakota Administrative Code, address general rules, retailer, conduct and play, and game rules.

The mission of the Lottery is to maximize net proceeds for the benefit of the state by promoting entertaining games, providing quality customer service to retailers and players, achieving the highest standards of integrity, security, and accountability, and maintaining public trust.

Scope of Operation

The North Dakota Lottery manages, regulates, enforces, and promotes the state-owned business enterprise and provides full financial accountability of its operation.

Lottery Advisory Commission

The Attorney General and Chairman of the Legislative Council appointed a five-member Lottery Advisory Commission. The Commission serves as a policy advisory to the Attorney General and director of the Lottery and serves as the Audit Committee of the Lottery. The Commission oversees the general operation of the Lottery and is consulted on all substantive Lottery policies, plans, issues, contracts, timelines, and activities. The Commission meets at least on a quarterly basis.

Product Mix

The North Dakota Lottery conducts the games of Powerball®, Hot Lotto®, Wild Card 2®, and 2by2®. Powerball was launched on March 25, 2004. Hot Lotto was launched on June 24, 2004. Wild Card 2 was launched on September 23, 2004. 2by2 was launched on February 2, 2006. These games have a range of minimum jackpots of $20,000 to $15 million, and a range of odds of winning on a $1 play of 1:3.59 to 1:36.6.

The Lottery launched a Give-A-Gift Certificate service on December 1, 2004, to provide players an opportunity to purchase lottery gift certificates in values of $1, $5, $10, and $20 to give as gifts to family members and friends for special occasions. The certificates are printed on lottery terminals, have no expiration date, and may be redeemed for lottery tickets at any Lottery retailer.

The Lottery launched a Subscription service on November 1, 2005, to provide players an opportunity to prepay and be automatically entered into draws for 13, 26, or 52 weeks. Subscriptions are available for all the games and can be applied for directly online through the Internet. Subscriptions are a convenience for players who cannot always get to a Lottery retailer before every drawing or who travel to another state on vacation during winter months or as gifts.

Retailers

As of June 30, 2006, the Lottery had 400 licensed lottery retailers located in 127 towns and cities throughout all 53 counties. There is about one lottery terminal for each 1,586 residents.

A volunteer informal 12-member Retailer Advisory Board serves as a front line retailer/player advisor to the Lottery. The Board provides the Lottery with retailers' perspectives on various items, including policy, point-of-sale items, Lottery web site, proposed rules and games, and marketing promotions. The Board meets periodically.

Debt Setoff

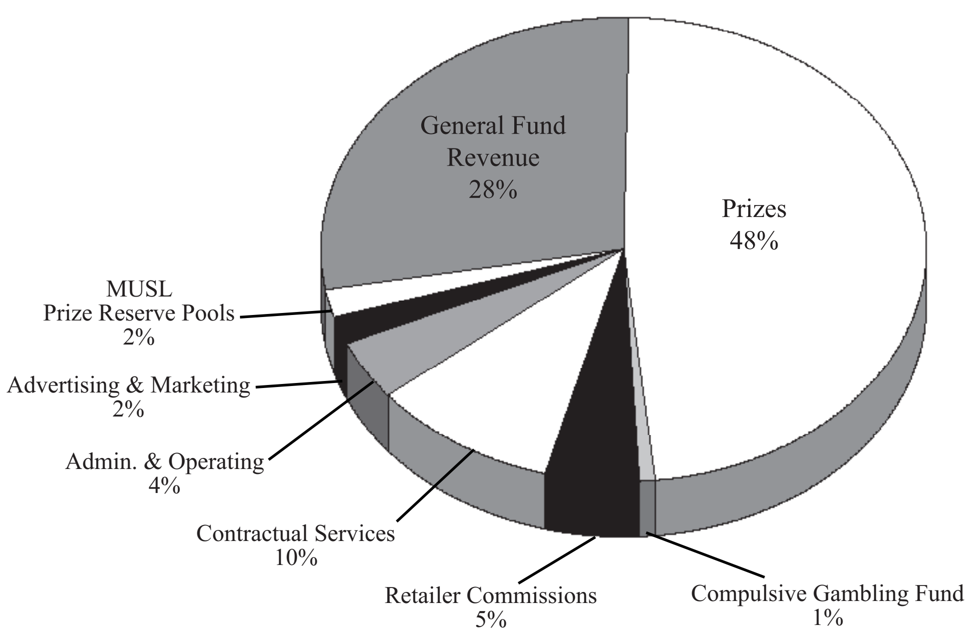
The Lottery has established a debt setoff program in which a lottery prize of $600 or more is used to setoff a delinquent debt owed to any state agency or collected through a state agency on behalf of a third party.

Financial Data

	FYE June 30, 2004 (3 months activity)	FYE June 30, 2005	FYE June 30, 2006 (unaudited)
Ticket Sales	$ 5,768,602	$ 19,127,290	$ 22,329,157
Total Prizes	$ 2,790,398	$ 9,085,551	$ 11,021,728
Retailer Commissions	$ 288,430	$ 956,365	$ 1,116,458
Retailer Bonuses	N/A	N/A	$ 41,250

Transfers	2003-05 Biennium	2005-07 Biennium
Compulsive Gambling Fund	$ 400,000	$ 400,000
State General Fund	$ 7,269,005	$12,000,000 (estimate)

Percent Allocation of Lottery Ticket Sales



SOURCE: North Dakota Lottery

CURRENT LAW

Imposition

Employers are subject to the North Dakota Unemployment Compensation Law if they are subject to the Federal Unemployment Tax Act. A firm in the private sector is subject to the Unemployment Compensation Law if it employs one or more workers in each of 20 different weeks in a calendar year or has a quarterly payroll of $1,500 or more.

The requirements also apply to an employer paying $1,000 or more in wages for domestic services and an employer of agricultural labor employing 10 or more workers in 20 different weeks within a calendar year or paying cash wages of $20,000 or more in any calendar quarter. A nonprofit organization having a 501-C-3 exemption (a federal income tax exemption covering charitable, religious and educational institutions) is subject to the tax if it employs four or more workers in each of 20 different weeks in a calendar year.

Excluded from unemployment compensation coverage are: services performed by insurance or real estate salespersons paid entirely by commissions, services performed for a parent by a child under the age of 18, services performed by the parents of the employer, and services performed by the wife or husband of the employer. Corporate officers and certain limited liability company managers with a 25% ownership may be excluded by written application.

Employers not otherwise liable under the law may request unemployment compensation coverage which, if approved, is effective for a minimum of two years.

Taxes

Wage Base. For federal tax purposes, the taxable wage base is the first $7,000 of each employee's wages. For state tax purposes, the taxable wage base is 70% of the statewide average annual wage. For 2006, the taxable wage base used for the North Dakota tax is $20,300.

Rate. The employer pays the entire tax for both federal and state unemployment compensation taxes.

A newly liable employer is assigned the tax rate of 1.87% for 2006 (150% of the maximum rate in the positive account schedule) unless the employer is classified in a construction industry. The tax rate for new construction employers is 9.44% for 2006 (the maximum rate in the negative account schedule).

For other than newly liable employers, the employer's tax rate is determined by an experience-rating system, which establishes the rate on the basis of the employer's experience with the unemployment insurance program.

There are two tax rate schedules, Positive Balance and Negative Balance. The employer's lifetime reserve (contributions paid less benefits charged) determines which schedule applies. The rate an employer is assigned within the respective schedule is determined on the basis of the relationship between the employer's last 6-year reserve balance (contributions paid less benefits charged) and his or her 3-year average taxable payroll.

Employers with a positive reserve - those having paid more in contributions than their former employees have collected in benefits - are assigned a rate in the Positive Balance Schedule. For 2006, rates for these employers range from 0.40% to 1.25%.

Employers with a negative reserve - those whose former employees have collected more in benefits than the employer has paid in contributions - are assigned a rate in the Negative Balance Schedule. For 2006, rates for these employers range from 6.05% to 9.44%.

Unemployment Insurance Tax Rates are recalculated each year and are effective on January 1 of the following year.

Payments. Taxes are paid quarterly to Job Service North Dakota. Certain nonprofit organizations, government agencies, and tribal entities may choose a reimbursement method of financing under which they repay Job Service only for unemployment benefits the state paid out to the organization's former employees.

Reports may be filed electronically via ***UI EASY*** accessible at Job Service North Dakota's web site: ***jobsnd.com***.

Benefits

An unemployed worker may file a claim for benefits by either internet or telephone. If the claimant has sufficient wage credits in a base period, the claimant's most recent employer and all base period employers are notified that a valid claim for benefits has been filed. Employers and claimants have the right to appeal all decisions by Job Service. Claimants must meet all other eligibility requirement during each week for which they wish to draw benefits.

The minimum weekly benefit paid to a claimant is $43 per week. If the claim computes to be less than that minimum, no benefits are allowed.

The maximum weekly benefit cannot exceed 65% of the average statewide weekly wage of all covered workers. The maximum weekly benefit is computed annually and takes effect on all claims filed with an effective date on or after July 1 of each year. For the period July 2, 2006 through June 30, 2007, the maximum weekly benefit amount is $351.

Unemployed workers filing claims may be disqualified for unemployment compensation benefits if they voluntarily quit their last employment without good cause attributable to the employer; were discharged for misconduct connected with their last work; failed to apply for or accept suitable work; lost employment due to participation in a labor dispute; or failed to disclose work and earnings during a period of claim filing.

Administration

Job Service North Dakota administers the state's unemployment insurance programs.

For more information on North Dakota's Unemployment Compensation Law, contact Job Service North Dakota at: PO Box 5507, Bismarck, ND 58506-5507 or e-mail at ***jsuits@nd.gov*** or call toll-free 1-800-472-2952 or 702-328-2814 or check the web site at ***jobsnd.com***. Persons who wish to file claims may call 701-328-4995 or go to ***jobsnd.com*** and use the ***UI ICE*** system.

HISTORICAL OVERVIEW

Significant Changes in Law

2001 Session.

- Established that a manager of a Limited Liability Company (LLC) is an employee only if the LLC treats itself as a corporation for purposes of federal income taxation or the manager is not a member.
- Established that the application to exclude from employment the services of certain corporate officers or LLC managers with 25% or more ownership interest may now be filed within 60 day of formation of the corporation or LLC.
- Changed the Incremental Bonding provision to the Construction Risk Protection provision. This provision indicates a general or prime contractor, or the owner in those situations in which there is no general or prime contractor, of a large construction project shall pay the total amount of unemployment insurance benefits paid to the employees of all employing units working on the project which exceeded the total amount of contributions collected from the employing units. In addition, a surety bond or an irrevocable letter of credit must be posted to insure payment.
- Established that an individual would not be disqualified from receiving unemployment insurance benefits if they voluntarily quit a job to return to an employer with whom they have a demonstrated job attachment.
- Changed how the "risk adjustment" tax rate assignment is determined when an employer's reported taxable payroll for a quarter is three times that employer's average taxable payroll. The rate will depend on the positive balance or negative balance status of the employer's account. Also clarifies that the rate adjustment will trigger if an account has a zero average taxable payroll.
- To insure compliance with the Federal Unemployment Tax Act (FUTA) state law established that with some exceptions, Indian Tribes are now treated similarly to State and local governments.
- Identified the exceptions to the rate limitation provision enacted in the tax rate determination legislation in the 1999 session.

2003 Session. Provided that the 10.99% "delinquent" rate be assigned to delinquent employers, EXCEPT:

1. Experience rated positive employers; and
2. New positive non-construction employers, be assigned the negative employer minimum rate (presently 6.49% of taxable wages).

Prohibited collateral attacks on UI decisions which have become final (by virtue of failure to appeal or following an appeal).

Provided that JSND is not required, at a hearing in which a base period employer is challenging being charged, to call or subpoena either the claimant or the claimant's last or most recent employer.

Provided that "supplemental unemployment compensation" payments provided by an employer can be considered nontaxable for UI tax purposes, AND are not considered wages for UI benefits qualifications purposes, if the payments are made pursuant to a plan that meets the statutorily defined eight requirements.

Required employing units to keep certain records, and authorized inspection "by employees of job service North Dakota" assigned responsibility to inspect and report on the information in the records for the purpose of determining the amounts of wages paid, the number of employees, wage expenditures, and such other information as may be necessary to carry out the UI law. Records are defined to include electronic records. Refusal to submit records to inspection is subject to a civil penalty of "five hundred dollars for each offense."

Allows noncharging of base period employers' accounts when, during the base period, the claimant voluntarily quit or was discharged for misconduct by the base period employer.

Allows base period employers who are currently employing a claimant part-time, and who have not changed the claimant's hiring agreement, not to have their accounts charged with benefits paid to the claimant.

Changed the deadline for sending out tax rate notices from December 1 to the end of the first full week in December, but no later than December 10.

An owner/claimant will be considered to have "ceded" his business. A business will be considered "ceded" for the purpose of determining the claimant's monetary eligibility in four circumstances cited in the statute.

2005 Session.

- Continued the Unemployment Insurance (UI) tax calculation based on moving toward an annually calculated solvency target for the UI Trust Fund. When the target is calculated, the tax rate must be set so that one-fifth of the difference between the Trust Fund balance and the target is made up during that tax year. Additionally, the bill requires that the amount required to reach required solvency is calculated so that the underlying rates necessary to raise the revenue to pay benefits during that tax year be multiplied by a ratio to reach the necessary amount to hit the solvency target, whether positive or negative. Thus, if the target is higher than the Trust Fund balance, the negative balance employers will pay more of the amount necessary to move towards solvency than will the positive balance employers.
- Created an 8-member Unemployment Insurance Advisory Council appointed by the Governor.
- Amended three current sections of Chapter 52-04 (UI tax code—Sections 52-04-10; 52-04-11.1[3]; and 52-04-17) to provide that an employer cannot demand a hearing before JSND has rendered a decision..
- Exempted aliens in the country under Section 101(a))15)(H)(ii)(A) of the Immigration and Nationality Act (H2A aliens) from coverage as employees. In other words, farmer-employers will not have to report or pay UI taxes on H2A aliens working for them.
- Provided that Job Service is to receive notice of school district dissolution and reorganization; and that reorganizing or dissolving districts are to set aside funds with the county auditor or the North Dakota School Boards Association to cover the amount calculated by JSND as potential liability for claims of the terminating school district.
- Amended statute to prevent SUTA (State Unemployment Tax Act) dumping which is the practice by which an employer takes steps to manipulate the situation so that the employer pays UI taxes, directly or indirectly, at a tax rate lower than the employer's assigned experience rate. All employers which have North Dakota Unemployment Insurance (UI) tax accounts, including employers which are Professional Employer Organizations (PEOs).

The general provisions applicable to all employers are:

1. If an employer acquires all or part of the business or workforce of another employer, and continues the same business as the transferring employer, the receiving employer may request the predecessor's UI experience rate, unless Job Service (JSND) finds that the transaction was "solely or primarily" for SUTA dumping.

2. If an employer acquires all or part of the business or workforce of another employer, and, at the time of the acquisition, there was common ownership, management or control, JSND must transfer the predecessor's UI experience to the successor. If, following a transfer such as described in this subparagraph JSND discovers that a "substantial purpose" of the transfer was to SUTA dump, then the two employers' experience rates are to be combined into a single account, and a single UI tax rate is to be assigned to that account.
3. If a person who is not an employer acquires the business or workforce of an employer, the experience rate of the acquired business may not be transferred to the receiving person if JSND finds that the transfer occurred "solely or primarily" for the purpose of SUTA dumping.
4. If a person knowingly SUTA dumps, in the manner listed in 1-3 above, that person is subject to assignment of a penalty UI tax rate at least 2% higher than the currently assigned rate for the remainder of the current rate year and for 3 following rate years. If a person advises a business to SUTA dump that person is subject to a civil penalty of up to $25,000.
5. In addition to the civil penalties, a person who knowingly violates, or attempts to violate, the section containing the federally-required SUTA dumping prohibitions will be guilty of a Class C Felony.

Provisions applicable to PEOs:

PEOs must furnish the Unemployment Insurance program a copy of their contracts with clients within 15 days after execution, and must report and pay UI taxes at their clients' rates unless:

1. The client's UI tax rate at the time of contracting was equal to or lower than the PEO's rate; or
2. The client's rate at the time of contracting was higher and the PEO contract requires the client to make a voluntary contribution to buy the rate down to the PEO rate, and the client actually makes that voluntary contribution; or
3. The client's rate is higher but the differential between rates will have a negative quarterly impact on the fund of $500 or less.

Finally, the Bill proposed a Legislative Council study of licensure or registration of PEOs.

- Directed a Legislative Council study of the possibility of limiting the number of job-attached UI claimants, and funding the costs of that action. JSND is to participate in the study.
- Ended the requirement to deduct a portion of Social Security retirement benefits from Unemployment Insurance weekly benefits, effective August 1, 2005.
- Appropriated $254,925 in Reed Act funds for the WorkFirst reemployment demonstration project and authorized the Agency to operate the WorkFirst demonstration project and to select a random sample of UI claimants to take part in the project, and to run the project at fewer than all of its local office sites. Appropriated $535,000 in Reed Act funds for UI computer system modernization procurement planning and authorized JSND to determine UI system modernization requirements, issue an RFP based on those requirements, and to make an appropriation request to the Sixtieth Legislative Assembly for the funds necessary to build the new system.
- Appropriated $20,000 from the General Fund, plus another $20,000 in private matching funds to JSND to run a "shared work" pilot project from January 1, 2006 through June 30, 2007.
- Ended the statutory requirement that Job Service be subject to a biennial performance audit.
- Allowed Job Service to share UI claimant information with the Drivers' License Division of the Department of Transportation.
- Repealed the provision requiring Job Service to republish the UI statutes after each legislative session.
- Amended current law to provide that base period employers' Unemployment Insurance accounts would not be charged if the claimant had quit or been discharged by that employer either during or after the base period.
- Amended subsection 1 of section 52-06-02 to provide that if a claimant left employment due to illness or injury and pursuant to a doctor's orders, with certain other prerequisites, the account of the separating employer is not to be charged with the benefits paid in that circumstance, UNLESS that employer is a reimbursing employer.
- Amended subsection 6 of section 52-06-02, which currently describes the disqualification from benefits that is imposed on a student who is "registered for full attendance at and is regularly attending" school.
- Removed services performed as a member of Americorps from the definition of employment, thus exempting "wages" paid to those "volunteers" from UI taxation.

Unemployment Insurance Benefit Payments
For year ending September 30
$ Millions

Fiscal Year	Benefit Payments
1996	31.6
1997	36.9
1998	31.7
1999	39.1
2000	37.5
2001	41.4
2002	45.1
2003	45.1
2004	44.6
2005	38.5
2006 (estimate)	42.3

SOURCE: Job Service North Dakota

Average North Dakota Employer Tax Rate and Unemployment Insurance Tax Revenue

Calendar Year	Average Employer Tax Rates		Tax Revenue
	Percent of Total Wages	Percent of Taxable Wages	
1996	0.48%	0.86%	20,709,398
1997	0.48%	0.87%	22,006,387
1998	0.60%	1.10%	29,699,094
1999	0.62%	1.12%	32,313,656
2000	0.69%	1.26%	38,043,573
2001	0.71%	1.28%	40,413,437
2002	0.72%	1.31%	41,809,970
2003	0.87%	1.60%	53,118,506
2004	0.87%	1.60%	55,661,000
2005	0.82%	1.51%	57,096,849
2006 (est.)	0.73%	1.35%	53,123,000

SOURCE: Job Service North Dakota

WORKERS COMPENSATION

CURRENT LAW

Imposition

The intent of the workers' compensation program is to take care of injured workers' medical bills; provide wage-loss, impairment and rehabilitation payments; and in the case of death, provide monthly payments to spouses and dependents. A properly insured employer is immune from lawsuits for on-the-job injury of an employee.

Employers must include all employees, except those specifically exempted by law, in the workers' compensation insurance program. Exclusions include farm and ranch workers, domestic workers, clergy, federal employees, railroad employees, newspaper delivery people, and real estate brokers and salespeople who operate under a signed contract as an independent contractor. Coverage is optional for employers, resident family members under the age of 22, the spouse of an employer, and self-employed individuals.

Premiums

In North Dakota, workers' compensation insurance is financed through premiums paid by employers. These premiums are among the lowest in the nation. Premiums for each employer are calculated using payrolls, industry-based premium rates, and loss history.

Employers report their payroll to Workforce Safety & Insurance (WSI) on an annual basis, according to the effective date on the employer's account. The amount of payroll used to calculate the premium for each worker is limited to 70% of the state's average annual wage. This "wage cap" was $20,300.00 as of July 1, 2006. Premium rates are set for 140 industry classifications based on industry loss experience. Premium costs up to the cap per employee range from 27 cents per $100 of payroll for bank employees to $28.52 per $100 of payroll for specialized aircraft operations (crop sprayers), which is one of the highest classifications. In 2005, WSI created a performance-based program (RMP+) that gives employers the opportunity to receive a premium discount if they meet specific claim frequency and severity rates or remain loss free during the reporting period. Employers are automatically enrolled in the RMP+ (excluding retrospective rates accounts, deductible accounts and minimum premium accounts). Employers are then eligible for discounts of up to 15% based upon each employer's reductions in the frequency (total number of claims) and the severity (total number of days lost from work directly related to an injury) of their claims from the previous year (baseline).

The 15% discount is achieved by:

1. 5% for reducing the claim frequency rate by 10%;
2. 5% for reducing the claim severity rate by 10%; and
3. an additional "bonus" of 5% for reducing both rates.

Benefits

An injured worker is responsible for filing a claim. They must do so within one year of the date of the injury to be eligible to receive disability benefits for the time they are unable to work because of the injury and medical benefits for the life of the injury. Any injury/disability must be substantiated by medical evidence.

An injured worker's medical treatment is monitored through a managed care program and is subject to a medical fee schedule. WSI reimburses the injured worker for "reasonable and necessary" medical treatment. Wage-loss benefits for a worker disabled for at least five days are based on 66 2/3% of the worker's gross weekly wage, not to exceed 110% of the state's average weekly wage. On July 1, 2006 the state's maximum weekly benefit was $624. Additional weekly allowances of $10 are paid on each child under age 18 or incapable of self-support, or age 18 to 22 if a full-time student. Workers with medical restrictions are evaluated through a workability assessment to determine ability to return to work and eligibility for rehabilitation benefits, which may include formalized training. Workers who suffer permanent loss of use of a body part may qualify for a lump sum "permanent partial impairment" payment.

WSI pays death benefits to the survivors of workers killed in work-related accidents. Benefits are paid to the eligible spouse of the dependents of the deceased worker at a rate of two-thirds of a deceased worker's gross weekly wage, up to 110% of the state's average weekly wage. They will also be paid $10 per week for each dependent child. Additionally, the surviving spouse receives a one-time death benefit of $1,200, plus $400 for each dependent child. There are also scholarships available for dependents and spouses. WSI pays all medical bills related to the compensable injury and death of a worker, including up to $6,500 for funeral expenses. Total benefits may not exceed $250,000 over the lifetime of a claim.

Dispute Resolution

The Office of Independent Review helps workers and employers on claims issues and serves as a litigation alternative. Injured workers may appeal WSI decisions of benefit claims by requesting an administrative hearing. Subsequent appeals may be made to District Court and then on to the Supreme Court. WSI pays the injured worker's attorney fees only if the worker wins the appeal and only if the worker sought assistance from the Office of Independent Review before appealing. Attorney fees may not exceed 20% of the amount in dispute.

Fraud

A Special Investigations Unit within WSI investigates workers, employers, and medical providers suspected of committing fraud. Anonymous tips about suspected fraud can be made through a toll-free telephone number, 1-800-243-3331 or by completing a form through the WSI website at www.WorkforceSafety.com.

Administration

WSI administers the state's workers compensation program. For more information on Workforce Safety & Insurance, write to Workforce Safety & Insurance, 1600 East Century Avenue, Suite 1, Bismarck, ND 58503-0649, call (701)328-3800, or call the HelpLine 1-800-777-5033.

HISTORICAL OVERVIEW

Significant Changes in Law

1991 Session. The legislature created binding arbitration as an alternative dispute resolution process, mandated a managed care program and use of a third party administrator to monitor injured workers' medical care, and mandated that North Dakota Workers' Compensation (NDWC) adopt a hospital and medical fee schedule. Employers were required to reimburse NDWC up to the first $250 of medical expenses for each claim. The wage base for computing the premium was changed from $3,600 to 70% of the state's average annual wage.

1993 Session. The legislature created a system of binding dispute resolution for disputes arising out of NDWC's managed care program. The legislature approved a risk management program which allowed employers a 5% discount on annual premiums if they designed and implemented a NDWC approved safety program. Suspension of benefits was allowed if an employee applied for benefits in another state for the same injury. An "other states" coverage program was established regarding payments of benefits to North Dakota-covered workers whose injury, disease, or death occurred in another state.

1995 Session. Workers were required to report injuries to their employers within seven days. NDWC was allowed to use failure to report an injury as a factor in determining claims. Employers with approved risk management programs were allowed to choose medical providers. If a worker wants to choose the provider, the worker must notify the employer in writing before an injury occurs. The legislature revoked wage-loss and rehabilitation benefits for workers who do not comply with rehabilitation plans. Wage-loss benefits were stopped when injured workers become eligible for Social Security Retirement benefits. Permanent Partial Impairment (PPI) compensation was limited to workers with over 15% whole body impairments. A workers' adviser program was set up to serve as a litigation alternative and to help injured workers' compensation process. NDWC was authorized to set up a special fraud unit. Fraud involving over $500 was changed from a class A misdemeanor to a class C felony. Attorney fees may no longer exceed 20% of the amount a claimant receives nor may they be paid by NDWC if the claimant loses.

1996 Referred and Initiated Measures. Voters in the June 1996 primary election upheld the changes made by the 1995 legislature.

1997 Session. The 1997 legislature changed the law to increase certain benefits, streamline claims processes, enhance system efficiency, further restrict the potential for fraud, reduce litigation and adjust earlier reforms. The legislature also placed NDWC within the oversight of a board of directors made up of NDWC constituents appointed by the Governor. NDWC continues to be managed by an executive director who reports directly to the board. This law also mandated that independent, qualitative performance audits be conducted by workers' compensation industry experts every two years with the results being presented to the legislature.

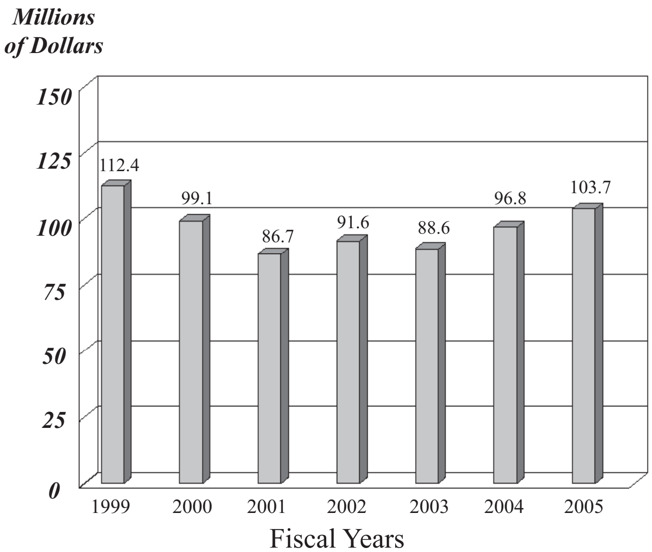
1999 Session. The 1999 legislature substantially increased cash benefits for the severly impaired, increased the maximum disability benefit (making North Dakota's maximum benefit rate one of the highest in the country), shortened the eligibility period for supplemental benefits, and increased the size of scholarships available to dependents of workplace fatality victims. Another major piece of 1999 legislation provides authority for NDWC to issue grants to high risk industries for prevention of workplace accidents. Additionally, the bill allows NDWC to offer dividends, deductibles, group insurance and other products that give employers direct financial incentives for protecting the safety of their workers.

2001 Session. Authorized the construction of a new building in north Bismarck to house NDWC and required NDWC to include rental space for other state agencies. Provided incentives for employers to hire previously injured workers in positions that will accommodate the worker's restrictions resulting from a work injury (the program was subsequently named, "The Preferred Worker Program). 2001 legislation also prohibited an employer from requiring an employee to use accrued personal leave for time off work for a work-related disability. Increased awards for certain impairment. Provided that an employee may be found guilty of fraud for making false statements to get a claim or benefit paid. And repealed the sunset clause on the scholarship fund for children of workers killed on the job.

2003 Session. Legislation changed the organization's name to Workforce Safety & Insurance (WSI). Increased lifetime death benefits from $197,000 to $250,000. Allows for the limited release of information on the status of an employer's account. Changed the make-up of the WSI Board of Directors, shortened the terms from 6 to 4 years and made the medical member a voting member and added an at-large member. Removed the re-marriage penalty fpr death benefit recipients. Increased the amount of money to $50,000 for WSI to spend on home and vehicle modifications for the catastrophically injured.

2005 Session. Legislation provided additional safety incentives and established continuing appropriation authority to fund safety education, grant and incentive programs from the fund's surplus. Provided employers an incentive for early claim filing by waiving the first $250 of medical costs if the claim is filed by midnight on the following WSI business day. Dedicated $15 million of WSI's fund surplus to establish an educational revolving loan fund to help injured workers take out college loans for an approved education plan when they don't qualify for a WSI vocational retraining program. Increased the amount of the non-dependency death benefit from $2,000 to 5% of the cap on death benefits ($12,500), the cap is currently $250,000. Provides the option for an injured worker to choose to pursue a retraining program or opt for up to five years of partial disability benefits. Changed the definition of what constitutes when a worker is declared to be Permanently and Totally Disabled, thus, moving from a subjective definition to an objective standard in the law. Increased the maximum dollar amount for Guardian Scholarships from $3,000 to $4,000 per year for up to 5 years for spouses and dependent children of a worker who died as a result of a compensable work-related injury, and increased the maximum amount of scholarships that can be awarded annually from $150,000 to $300,000.

Premium Income
North Dakota Workers Compensation



SOURCE: Workforce Safety & Insurance

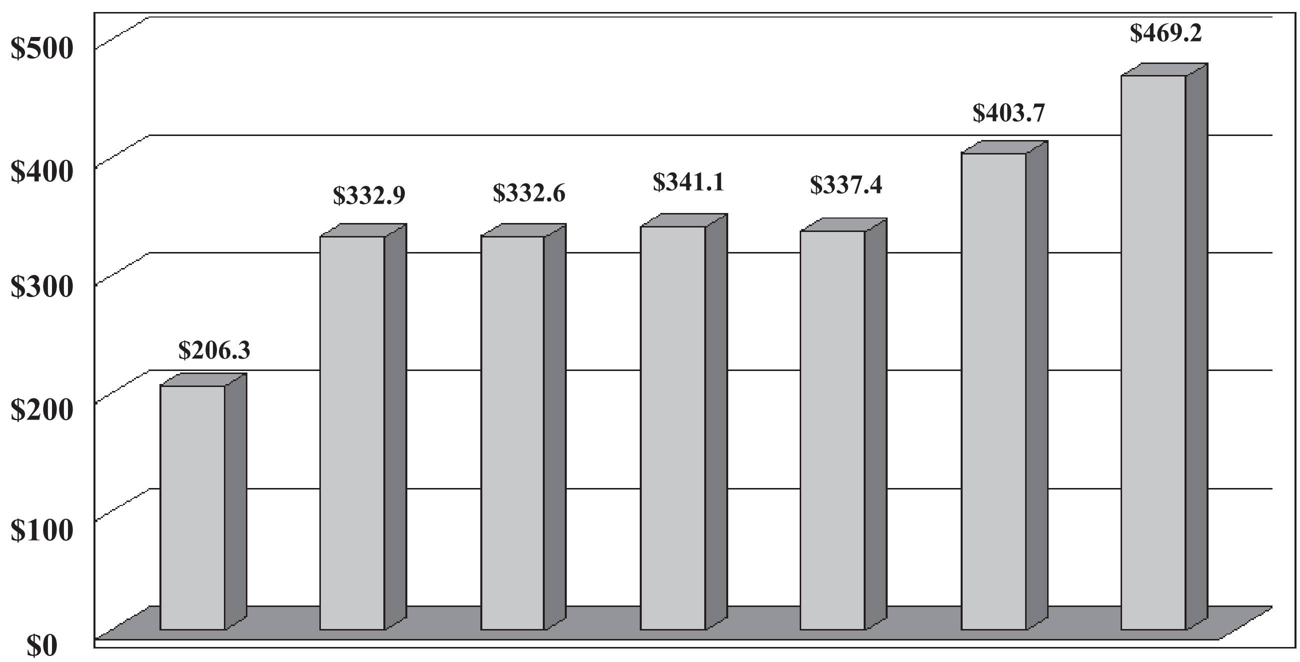
North Dakota Workers Compensation Premiums
Example of Low (Clerical) and High (Iron or Steel Construction)

Maximum Per Employee Charge

Year	Clerical	Iron or Steel Construction
1994	50.70	4,082.00
1995	52.26	4,207.60
1996	52.82	4,235.33
1997	49.70	4,037.06
1998	48.84	3,842.08
1999	49.92	3,948.36
2000	54.74	4,066.86
2001	52.70	3,420.40
2002	53.94	3,500.88
2003	55.80	3,621.60
2004	62.90	3,984.90
2005	75.66	4,386.34

SOURCE: Workforce Safety & Insurance

Workforce Safety & Insurance Fund Surplus



FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
$206.3	$332.9	$332.6	$341.1	$337.4	$403.7	$469.2

SOURCE: Workforce Safety & Insurance

Workers' Compensation Premium Rate Per $100 of Payroll

Rank	State	Index Rate
1	California	6.08
2	Alaska	4.39
3	Florida	4.20
4	Hawaii	3.73
5	Ohio	3.59
6	Kentucky	3.48
7	Delaware	3.44
8	Montana	3.41
9	Louisiana	3.37
10	District of Columbia	3.26
11	Connecticut	3.23
12	New Hampshire	3.19
13	Maine	3.08
14	Texas	3.08
15	Oklahoma	3.07
16	Rhode Island	3.01
17	Vermont	2.99
18	New York	2.97
19	Alabama	2.88
20	Pennsylvania	2.82
21	Minnesota	2.74
22	Missouri	2.67
23	Illinois	2.65
24	West Virginia	2.64
25	Tennessee	2.62
26	Nevada	2.58
27	New Mexico	2.56
28	Wyoming	2.43
29	New Jersey	2.38
30	Michigan	2.34
31	Colorado	2.33
32	North Carolina	2.32
33	Wisconsin	2.27
34	Idaho	2.25
35	Washington	2.20
36	Mississippi	2.19
37	Georgia	2.14
38	Nebraska	2.10
39	South Carolina	2.08
40	Maryland	2.06
41	South Dakota	2.05
42	Oregon	2.05
43	Iowa	1.91
44	Kansas	1.81
45	Massachusetts	1.70
46	Utah	1.63
47	Virginia	1.57
48	Arkansas	1.57
49	Arizona	1.49
50	Indiana	1.24
51	**NORTH DAKOTA**	**1.06**

Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discounts and dividends.

SOURCE: Research and Analysis Section, Oregon Department of Consumer & Business Services 2005.

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