



North Dakota

Office of State Tax Commissioner
Cory Fong, Tax Commissioner

49th Biennial Report

For the Biennial Period of
July 1, 2007 through June 30, 2009



North Dakota: An Economy on the Move



OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

CORY FONG
TAX COMMISSIONER

December 1, 2009

To: The Honorable John Hoeven Governor
The Honorable Al Jaeger, Secretary of State

It is with great pleasure that I submit for your consideration the Forty-Ninth Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of State Tax Commissioner for the period July 1, 2007 through June 30, 2009, and is submitted pursuant to North Dakota Century Code §§ 54-06-04 and 57-01-02.

Sincerely,

A handwritten signature in cursive script, appearing to read "Cory Fong".

CORY FONG
TAX COMMISSIONER

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The Office of State Tax Commissioner

Accountability and Customer Service Initiatives

History of the Office of State Tax Commissioner

The Office of State Tax Commissioner has been a separate agency since 1912. Prior to 1912, the State Auditor handled some of the functions now performed by the Tax Commissioner. From 1912 to 1919, the Governor appointed a three-member nonpartisan Tax Commission to administer the tax laws of the state. As a result of a special election in 1919, the three-person tax commission was changed to a single Tax Commissioner whom the Governor was given the authority to appoint with consent of the Senate. A constitutional amendment adopted June 28, 1938 changed the Tax Commissioner post to an elective office with a term of four years. The measure also stipulated that the Tax Commissioner should be elected on a no-party ballot and that the first Commissioner would not be elected until the 1940 General Election. In 1987 the Tax Commissioner was removed from the no-party ballot. Of all 50 states, North Dakota is one of only three states in which the Tax Commissioner is elected.

Even though the legislation that created the commission allowed hiring a secretary, the Tax Commission budget was insufficient to support the position. The first department staff member was hired in 1913 and by 1928 the Department had grown to 12 employees. The Tax Department continued to grow as the state's population increased, as new tax types were added, as tax laws became more complex, and as new services were provided. By 1995 the number of employees peaked at 157.

In recent years, staff numbers have been reduced through attrition, through streamlining duties, and by finding efficiencies within the department as well as through effective utilization of technology. During the 2007-2009 biennium, the Office of State Tax Commissioner was authorized 133 permanent staff members – a reduction of 24 positions from the 1995 peak.

The Office of State Tax Commissioner Accountability and Customer Service Initiatives

The Office of State Tax Commissioner is committed to providing prompt, accurate and courteous service while promoting compliance with the tax laws of North Dakota. The Tax Department is committed to improving customer service and increasing productivity with an eye on keeping costs to a minimum. The following list identifies the department's accomplishments during the 2007-2009 biennium:

Property Tax

Senate Bill 2032

The 2007 Legislature passed Senate Bill 2032, which provided \$115 million in property tax relief for homeowners, landowners, and commercial property owners. Various divisions in the Tax Department collaborated to implement the Property Tax Relief provisions of SB 2032. Activities included establishing an informational area on the Department web site with forms, publications, FAQs etc. Also, the Department designed informational brochures, flow charts, and special forms for taxpayers to use to claim the relief and a certificate for taxpayers to use to redeem with the county to receive the relief. Other activities included establishing and implementing an extensive public education campaign, training for various officials and CPAs, database sharing, added a dedicated taxpayer assistance phone line, added temporary staff to respond to questions and process returns.

House Bill 1303

The 2007 Legislature passed House Bill 1303 which requires all county directors of tax equalization to use soil type and soil classification data to determine the relative values of agricultural lands by the 2010 assessment. HB 1303 created an advisory committee to work with the North Dakota Association of Counties and the Property Tax Division to assist counties

in complying with HB 1303. A Property Tax staff person visited numerous counties in January and February 2008 to assist counties. And, staff conducted a week-long agricultural valuation school in May 2008 to provide instruction on ag valuation and compliance with HB 1303.

Integrated Tax System

The Tax Department's Integrated Tax System (off-the-shelf software called GenTax®) project finished on time and under budget on June 30, 2007. Notable IT milestones that have been implemented internally by the Tax Department over the past year include:

- Implemented Property Tax Relief Program including issuance of certificates to taxpayers, carrying credit forward and submitting EFT to counties.
- Implemented quarterly Local Option Tax changes.
- Implemented new core recoveries modeling (Revenue Accounting component).
- Implemented new security features.
- Implemented user tracking.
- Implemented Service Packs for subsystems
- Completed Oil and Gas Interface to replace A/R Process previously residing on Legacy.
- Automated Contractor's Clearance Project (approximately 1,500 taxpayers) moving from 100 percent manual process to very minimal manual intervention.
- Automated processes for compliance of Income Tax Withholding Tax allowing for annual reconciliation, non-filer process to begin in a timelier manner.
- Automated processes for compliance of Sales Tax using auto generated letters resulting in substantially fewer work items requiring manual intervention.
- Implemented reconciliation process for compliance of Motor Fuels reconciling inventories for each licensed motor fuel dealer on an annual basis rather than relying on dealers to submit data.
- Implemented new Discovery Manager

Canadian Refund Automation Project

The Tax Department continues to search for ways to increase efficiencies and to reduce the paper forms entering the system. As a result, the Tax Department developed an electronic system to

replace the paper process Canadian residents use to request a refund of sales tax. The new system allows Canadian residents to submit their sales tax refund claims online using a secure electronic form available on the Tax Department's web site. The electronic system allows the Canadian purchaser to track the status of their claim and learn if an invoice is accepted or rejected. And, by using the online system, the Tax Commissioner's Office is able to quickly determine eligibility of the receipts.

Department Reorganization

The Tax Department has been reviewing its organizational structure with the goal of modifying the structure to fulfill the Department's Mission Statement in the most efficient and effective manner possible. The following changes, which move two major processes from a tax type structure to a functional structure, were implemented during the 2007-2009 biennium:

- Created a registration section to process taxpayer registration for all tax types. Concentrating this function into one section helps standardize our registration processes and allows specific staff to focus on completing the registration process and recording new taxpayers and accounts into our integrated tax system.
- Created an error correction section to follow-up on return irregularities and discrepancies for all tax types maintained within the integrated system. Because all tax returns have certain common elements and processes, specialization in error correction allows staff to become more efficient in processing returns and issuing refunds where applicable.
- Created a Research & Communications unit that is responsible for communicating with the public, conducting research, and formulating policy.

E-File Services

During 2009, over 60 percent of the individual income tax returns were filed electronically. This represents a growth of over eight percent compared to the number of e-file returns received during 2008. The Tax Department continues to promote electronic filing for individual income tax returns and anticipates the growth to continue. The Tax Department is a partner with private industry and the IRS in the Free File Alliance. This partnership offers free e-file opportunities to about 70% of North Dakota taxpayers with no cost to the Tax Department.

Powers and Duties of the Tax Commissioner

1. Shall perform all the duties imposed by law.
2. Shall exercise general supervision over all assessors of general property or other taxes, township, county, and city boards of equalization, and all other assessing officers in the performance of their duties. All assessments of property shall be made relatively just and equal in compliance with the laws of this state.
3. Shall direct actions and prosecutions to enforce the laws, penalties and punishments of persons for failure to comply with the provisions of tax law. The Tax Commissioner shall cause complaints to be made against officers for neglect or refusal to comply with the law, and generally shall enforce all tax proceedings and revenue laws of the state in the proper court.
4. May require county state's attorneys to assist in the commencement and prosecution for the violation of any tax laws.
5. May require township, city, county and other public officers to report information regarding the assessment and collection of property and other taxes, receipts for taxes and other sources, the expenditure of public funds and other information in the administration of tax laws in a form that he/she may prescribe.
6. May summon witnesses to appear, give testimony, produce books, records, papers and documents relating to any matter which he/she or the state board of equalization may have authority to investigate or determine. The Tax Commissioner may cause the depositions to be taken like depositions of witnesses are taken in civil actions in the district courts.
7. May require a reassessment of property in any county to be made in accordance with N.D.C.C. ch. 57-14 whenever deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.
8. Shall examine all cases where evasions or violations of the laws of assessments and taxation are alleged, complained of, or discovered, and shall ascertain if existing laws are defective or are administered improperly or negligently.
9. Shall submit to the governor and the secretary of state as prescribed by 54-06-04 the biennial report of the commissioner and the state board of equalization.
10. Shall visit other states and confer with taxing officials and attend tax or other economic conferences or conventions, in person or by his/her authorized agent.
11. Shall certify all levies, assessments, equalization, or valuations made by him/her or the state board of equalization, not more than thirty days after they have been made, or at periods otherwise provided by the law.
12. Shall have the power to execute reciprocal agreements with the appropriate officials of any other state. These agreements may waive all or any part of the tax requirements imposed by this state on gasoline or other fuels in the state of North Dakota, when the tax has been paid to the other state. The officials of the other state must grant the equivalent privileges with respect to gasoline or other fuels used in that state when the tax has been paid to the state of North Dakota.
13. May maintain an accounting system which includes a special category of accounts, designated as noncurrent accounts. The noncurrent accounts shall be the accounts which are uncollectible as a matter of law or those accounts where all reasonable collection efforts over a period of six years have produced no results. After examination by the state auditor, and upon his/her recommendation for cause, specific accounts may be removed by the commissioner from noncurrent status and all records pertaining to it destroyed.
14. May waive, upon a showing of good cause, any and all tax due. A lien must have been filed against the debtor's property and the attorney general must approve the waiver. Further, a debtor's individual income tax liability may be reduced based upon a federal offer in compromise.
15. May allow a taxpayer to pay a tax liability to the state electronically no later than the date the payment is required by law to be made.
16. May participate in the treasury offset program administered by the United States department of treasury as prescribed by federal law and regulation. An amount equal to the amount of fees for participation in this program and any repayment of refunds erroneously received is appropriated as a standing and continuing appropriation to the tax commissioner for payment of fees due under this program and any required repayments.

Specific duties assigned to the Office of State Tax Commissioner are set out in N.D.C.C. Title 57, and the general powers and duties in N.D.C.C. § 57-01-02.

The North Dakota Office of State Tax Commissioner

Mission Statement

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

Vision Statement

The vision of the Office of State Tax Commissioner is to instill the highest degree of public confidence in our integrity and reliability by providing prompt, accurate and courteous service while promoting compliance with the tax laws of North Dakota.

Guiding Principles

We treat our customers as we would want to be treated.

Customer service comes first. The public, other government officials and our coworkers are our customers. Conduct business in a courteous, dependable and professional manner. Anticipate the unexpressed needs of our customers.

We extend cooperation and assistance to fellow public servants.

Be consistent and accountable in our relationships with legislators, government officials and government personnel. Strive to earn respect for ourselves and elevate the public perception of all state employees.

We uphold the Taxpayer Bill of Rights.

Recognize the rights of taxpayers. Provide an equal and meaningful opportunity for taxpayers to be heard. Educate taxpayers on their responsibilities and rights under North Dakota tax law.

We make wise and prudent use of all resources.

Take seriously the responsibility the citizens of North Dakota have given us. Improve service through the effective use of technology and other resources.

We recognize employees are our biggest asset.

Encourage personal and professional growth. Recruit and select well qualified employees based on high standards. Recognize the achievements of employees.

We recognize each individual's contribution to the team.

Explore and implement leadership styles that encourage teamwork. Foster a work climate which builds on team strengths while encouraging individual initiative. Acknowledge all coworkers as members of the same team.

We value those with whom we work.

Communicate with our coworkers in an open, honest and courteous manner. Respect our differences and consider the views of the entire staff.

Functions and Responsibilities of The Office of State Tax Commissioner's Divisions

The Office of State Tax Commissioner comprised six separate divisions. The Commissioner's Division is the administrative nucleus of the department. The Legal Division provides legal advice and counsel to the department and to the State Board of Equalization. The Fiscal Management Division performs accounting functions. The Operations Division is responsible for processing tax returns, mail processing, central records, procurement, as well as leading the department's technology efforts. The Tax Administration Division, and Property Tax Division administer different state taxes under the direction of the Tax Commissioner. The following summaries provide more detailed explanations of the functions and operations of the Office of State Tax Commissioner's divisions.

Commissioner's Division

The Commissioner's Division has ultimate responsibility for the general administration of the department. It also serves as the department's primary research center, manages its personnel functions, and conducts studies as assigned by the commissioner on tax-related matters.

Tax Commissioner

The Tax Commissioner is the chief administrator of the department and final arbiter of its policies. The commissioner serves on several administrative boards related to the Office of State Tax Commissioner.

As secretary to the State Board of Equalization, which certifies tax assessments for public utilities whose properties lie within several taxing districts, the commissioner is responsible for determining the tentative valuation of those properties. The commissioner also oversees regular studies of real estate assessments done by the Office of State Tax Commissioner, studies which the State Board of Equalization may use in equalizing property tax assessments between counties and taxing districts.

The Tax Commissioner is a voting member of the Multistate Tax Commission. This organization through the cooperation of its member states,

enhances the ability of state revenue departments to enforce compliance with tax laws applying to multi-state businesses.

Deputy Commissioner

The Deputy Commissioner assists the Commissioner in determining department administrative policy. The deputy supervises the development and implementation of effective personnel and fiscal management; facilitates management planning to determine current and future staffing needs; and serves as the division director for research and communication, and human resources. The deputy leads a department-wide effort to provide clear, concise and accurate information to all taxpayers through publications and news releases; serves as the commissioner's lead person in assuring good customer service; and is responsible for pursuing and implementing technology-related projects that enhance service and increase efficiency. The Deputy Commissioner also has an oversight responsibility for accounting, budgeting, training, and salary administration.

Research and Communication Section

The Research and Communication Section includes staff from the previous Research and Statistics section, Communications section, and Income Tax section. The Research and Communication section serves as a liaison with the public, the media, the legislature, and other government agencies by providing information about the department's policies, programs, actions, services, and related tax matters.

The Research and Communication Section continues to be responsible for the preparation of revenue forecasts and other fiscal analyses. When requested by the Legislative Council, the section prepares estimates and projections of fiscal implications of all proposed tax legislation dealing with state revenues. The section also estimates the current and future fiscal impact of all administrative rulings proposed by the Tax Commissioner, maintains files of legislation affecting state tax revenue, and develops and maintains statistics on state tax. In addition, the Research and

Communication Section prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

The Research and Communication section also researches various tax-related issues and special projects, serves on a number of advisory councils and committees as needed, produces the Department's forms and publications for the Office of State Tax Commissioner, and provides assistance with the management of the department's web site.

Human Resources Section

Also within the Commissioner's Division is the Human Resources section. This section is responsible for the recruitment and selection of new employees for permanent positions within the Tax Department as well as for temporary positions during the tax processing season. The Human Resources section ensures compliance with federal and state employment regulations and laws, administers the department's wage and salary plan, ensures proper classifications of department positions, maintains employee records and complies with the confidentiality requirements of those records. The section also maintains current policies and procedures, provides guidance and information to employees and managers regarding Human Resource issues and policies and procedures, administers the Department's performance management program and serves as the Risk Management Coordinator.

During the 2007-2009 biennium the Commissioner's Division included nine full-time positions which include: the Tax Commissioner and Deputy Commissioner, a human resources officer, a research analyst, an auditor, a public information specialist, an administrative assistant, and two office assistants.

Operations Division

The Operations Division is responsible for the Tax Department operational infrastructure, along with the acquisition of all goods, equipment, and services. In addition, the Operations Division includes four sections: Information Technology, Tax Registration, Taxpayer Services, and Tax Processing for the processing and final disposition of all tax-related data and documents.

The Operations Division Information Technology section is responsible for maintaining security for all federal data and documents; the operation and maintenance of all tax programs and processing automation such as the integrated tax system, e-file, scanning and automated data capture programs; and the Tax Department's web site.

The Tax Registration section is responsible for interpreting and enforcing statutes by determining permit and licensing requirements; as well as bond and bond amount requirements, filing frequency and managing taxpayer demographic information, which requires knowledge of all taxes administered by Tax Department.

The Taxpayer Services section is responsible for administration of tax rules and processing edits and business rule checks on tax returns across tax types; direct communication with taxpayers regarding missing or incorrectly reported information as well as providing taxpayer assistance and education, and developing understandable forms and instruction; correction to reported tax information resulting in refund or amount owed differences; and management of the work item inventory. This section ensures that tax data and information collected is accurate and complete prior to issuance of refunds or credit offsets to other agencies. The Taxpayer Services section analyzes and measures error conditions and provides the agency with solutions to repetitive problems.

The Tax Processing section is responsible for managing the processing of all tax returns; preparing and publishing vendor specifications for 1-D/2-D barcodes, substitute forms, and electronic filing; designing, testing, and approving forms and electronic filing submissions; and preparing documentation for vendors and maintaining a web site for the vendor community. Tax Processing also handles all mail opening, sorting, and slicing; validating, imaging, and processing; and printing, mailing, and storage of all tax documents.

In the 2007-2009 biennium, the Operations Division included 41 full-time positions. Those positions include the director, one administrative assistant, one purchasing agent, one project manager, seven information technology analysts, nine processing staff, four data entry staff, six registration staff, eight taxpayer services staff and three vacant positions.

Legal Division

The Legal Division provides legal advice and counsel to all divisions within the Office of State Tax Commissioner and the State Board of Equalization. The division's attorneys respond to inquiries from the Tax Commissioner, Tax Department staff, legislators, state and local officials, and citizens and prepare opinions on tax questions. They also review and draft department administrative rules under the provisions of the Administrative Agencies Practice Act, coordinate the approval of those rules by the Attorney General, and file them with the Legislative Council.

During each North Dakota legislative session, the Legal Division develops and drafts bills for the Tax Commissioner to be presented to the Legislature and participates in the legislative hearing process. At the end of the legislative session, the division's attorneys interpret new or amended laws to aid the department in implementing those laws, and assist the Tax Commissioner in issuing rules, regulations or policies regarding them.

The Legal Division conducts formal hearings before the Tax Commissioner or his designated representative and represents the Office of State Tax Commissioner and the State Board of Equalization in litigation brought by or against either the department or the board.

During the 2007-2009 biennium the Legal Division included five full-time positions: two attorneys, one paralegal, one collection officer, and one legal assistant.

Fiscal Management Division

The Fiscal Management Division is the Department's center for business transactions. This division directs and monitors the agency accounting and financial reporting systems. The Division prepares and maintains the accounting records of total revenue received, expenditures for payroll and accounts payable, and tax refunds. It maintains the Department's fixed asset inventory records, determines the level of insurance coverage for fixed assets, and prepares the leases for office space and equipment.

The Fiscal Management Division prepares the Department's executive budget request and monitors the request through the legislative process.

The Division also assists with biennial revenue estimates. In addition, the Fiscal Management Division prepares the Department's internal budget, analyzes and forecasts expenditures, monitors and reports on budget performance, and prepares reports and financial statements for management information and auditing purposes. The division monitors proposed legislation and establishes policies and procedures for implementation.

The Fiscal Management Division establishes and implements accounting policies and procedures to ensure compliance with OMB policies and guidelines, generally accepted accounting principles, and governmental accounting standards. In addition, the division is responsible for maintaining appropriate risk management and internal control. All records maintained by the Department are subject to state audit. The Fiscal Management Division coordinates the annual audits by the State Auditor's Office.

During the 2007-2009 biennium, the Fiscal Management Division included six full-time positions: four account technicians, one Accounting/Budget Specialist, and one Accounting Manager/Chief Fiscal Officer.

Tax Administration Division

The Tax Administration Division consists of six sections: Corporate Income Tax; Individual Income and Withholding Taxes; Sales & Special Taxes Compliance; Sales & Special Taxes Audit; Motor Fuels, Oil & Gas, and Estate Taxes; and Collections.

These sections maximize taxpayer compliance with North Dakota tax laws, assist in return processing, perform audits, and collect delinquent taxes. They use various investigative means to identify non-filers, investigate reasons for not filing, enforce filing requirements, and employ a variety of collection methods to collect past due taxes. The division publicizes tax rules and regulations, issues administrative rulings, recommends tax law changes, designs and revises tax forms and instructions, and monitors litigation.

There is continued emphasis on providing taxpayer assistance over the telephone, in person over-the-counter, and through correspondence. The Division provides speakers for tax clinics, tax preparation and other educational workshops.

Corporate Income Tax

The Corporate Income Tax section administers the state's income tax imposed on corporations doing business in this state. This section also administers the tax on financial institutions, with a portion of this tax going directly to the counties.

This section's primary emphasis involves conducting office and field audit reviews. In order to provide as much audit coverage as possible, the Corporate Income Tax section relies, in part, on the Multistate Tax Commission's cooperative program to perform field audits on the state's behalf. Additionally, the section investigates data from various sources to identify entities that have failed to report and remit taxes due.

Individual Income Tax and Withholding

The Individual Income Tax and Withholding section administers the state's income tax law for individuals, estates and trusts, partnerships, and small businesses. The section is also responsible for obtaining compliance with all employers responsible to withhold income tax from employees. The section conducts audit reviews of taxpayers' returns and requests for refunds, as well as investigates data from various sources to identify individuals and entities that have failed to report and remit taxes due. In addition, the section provides taxpayer assistance along with newsletters, guidelines, rules and regulations.

Sales and Special Taxes Compliance

The principal function of the Sales and Special Taxes Compliance section is to administer state and local sales taxes, city lodging, restaurant, and motor vehicle rental taxes, music and composition tax, cigarette and tobacco taxes, alcohol taxes, and provider assessment for intermediate care.

Responsibilities for this section are to assure returns for the various tax types are filed timely and accurately; administer exemption applications and compliance programs; process amended returns and refund requests; issue licenses to wholesale businesses selling alcoholic beverages; issue administrative tax rulings, provide newsletters, guidelines, rules and regulations; and, provide taxpayer assistance. The section investigates data from various sources and implements projects to identify entities that have failed to report and remit taxes due. Projects and processes include

field visitation, special events project, nexus and discovery project; voluntary disclosure program; and Canadian customs review project.

Sales and Special Taxes Audit

The primary focus is on customer service and the reduction of protested audits. The Sales and Special Taxes Audit section conducts field and office audits of sales and use taxes, local lodging, restaurant and motor vehicle rental taxes, fuel taxes, cigarette and tobacco taxes, and wholesale alcohol beverage taxes. The section also utilizes the Multistate Tax Commission's cooperative program to perform field audits on the state's behalf.

Audit surveys are requested from taxpayers after a field audit is completed to obtain feedback on our performance and help improve our service. Completed surveys continue to reflect professionalism, accurate work product and quality taxpayer service. In addition to audit work, the section participates in special projects, assists in taxpayer education and compliance functions.

Motor Fuels, Oil & Gas, and Estate Taxes

This section administers three groups of taxes. Motor fuel taxes, which consist of motor vehicle fuel, special fuel, and aviation fuel taxes; Oil and gas taxes, which consist of oil and gas gross production tax and oil extraction tax; and estate tax.

Motor Fuels

In the motor fuels area, the section issues fuel licenses, assures that tax returns are filed timely and accurately, assists in fuel tax audits, provides newsletters, guidelines, rules and regulations, and provides taxpayer assistance. The section also processes refunds submitted by railroad, agricultural, and industrial consumers that use fuel in unlicensed equipment for off-road purposes.

Oil and Gas

In the oil and gas tax area, the section's main responsibilities are to assure that all tax returns received are timely and accurate; provide newsletters, guidelines, rules and regulations; and perform compliance reviews and audits of oil and gas companies conducting business in the state.

Estate Tax

North Dakota's estate tax is entirely contingent on credits from the federal estate tax allowed by federal law. The section verifies that the federal credit is computed correctly on each estate tax return, maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

Collections

The Collections section is responsible for collecting delinquent taxes for all tax types administered by the Tax Commissioner. Established collection procedures include telephone and written communication with taxpayers and the mailing of notices requesting payment of taxes.

If necessary, this section may resort to civil or criminal legal action. It is the policy of the Collections section to initiate legal action only in those cases where the taxpayer fails to respond to collection attempts. Taxpayers are always given ample notice and opportunity to comply with requests for payment of taxes.

In the 2007-2009 biennium, the Tax Administration Division includes 67 full-time positions. Those positions are the director, one associate director, one administrative assistant, forty-two auditors, seven audit technicians, seven collections officers, five compliance officers, and three office assistants.

Property Taxes Division

The property tax is an important source of local revenue for financing school districts, and county, city and township government. While local government units have the responsibility of assessing and taxing all classes of real property, the Office of State Tax Commissioner provides assistance to local government units to assure that the property tax is administered equitably throughout the state.

The Property Tax Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments among the various counties in North Dakota. To assure property tax equalization, the division performs annual ratio studies, which compare true and full value of real estate with the sale price of properties which have been sold.

If significant assessment variations exist among counties, the State Board of Equalization takes steps to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when the owners of those properties have appeared before the State Board of Equalization requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property Tax Division. Under this state-funded program, qualifying senior citizens and disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the local taxing districts by this reduction is reimbursed to them from the state general fund. Credits are allowed not only against real property tax assessments but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

The Property Tax Credit for Disabled Veterans was funded by the 2009 Legislature to replace the disabled veterans' property tax exemption. This is a state-funded program that provides a property tax credit for the homestead of a disabled veteran with at least 50 percent service-connected disability. The credit is calculated by multiplying the true and full value of fixtures, buildings, and improvements of the homestead by the disabled veteran's certified service-connected disability percentage, to a maximum credit of \$120,000. The Property Tax Division administers the Property Tax Credit for Disabled Veterans.

Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the Utilities Tax Section. Most real property is assessed by local government. However, the property of railroads, airlines, public utilities such as electric and gas companies, and pipeline companies is assessed at the state level. The Tax Commissioner, utilizing appraisals by the Utilities Tax Section, makes tentative valuations and the State Board of Equalization sets the final assessed valuations. The section then certifies to each county the value placed on the railroad, utility, and pipeline property located within that county, and

the tax is administered and collected by the local governments. The Utilities Tax Section collects the air transportation company tax and certifies the amounts to be distributed to the cities or municipal airport authorities where the air transportation companies made regularly scheduled landings.

The State Supervisor of Assessments has the statutory responsibility to certify that assessors and county directors of tax equalization have met minimum requirements. The certification process is administered by the Property Tax Division. The division also conducts seminars for local government officials to improve administration of property tax and holds property tax appraisal schools for assessors and other local tax officials. Staff interprets tax statutes, reviews and analyzes legal questions, and provides information concerning changes in law or policy affecting property taxation. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer property tax, the division functions as a statistical and information resource center and facilitates communications among all levels of government to maintain efficiency, promote uniformity and achieve equalization within the property tax system. Statutes concerning budgetary control of local taxing districts require the Property Tax Division to develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with firsthand knowledge of the procedures that they must use.

The Utilities Tax Section administers and collects the telecommunication gross receipts tax imposed on the retail sale of two-way telecommunications services. A standing appropriation of \$8.4 million is distributed annually to the political subdivisions in lieu of property taxes on telecommunications property.

The Utilities Tax Section calculates and certifies the gross receipts tax on rural electric cooperatives to the counties. The counties collect the tax and distribute it to the political subdivisions where the cooperatives' lines are located.

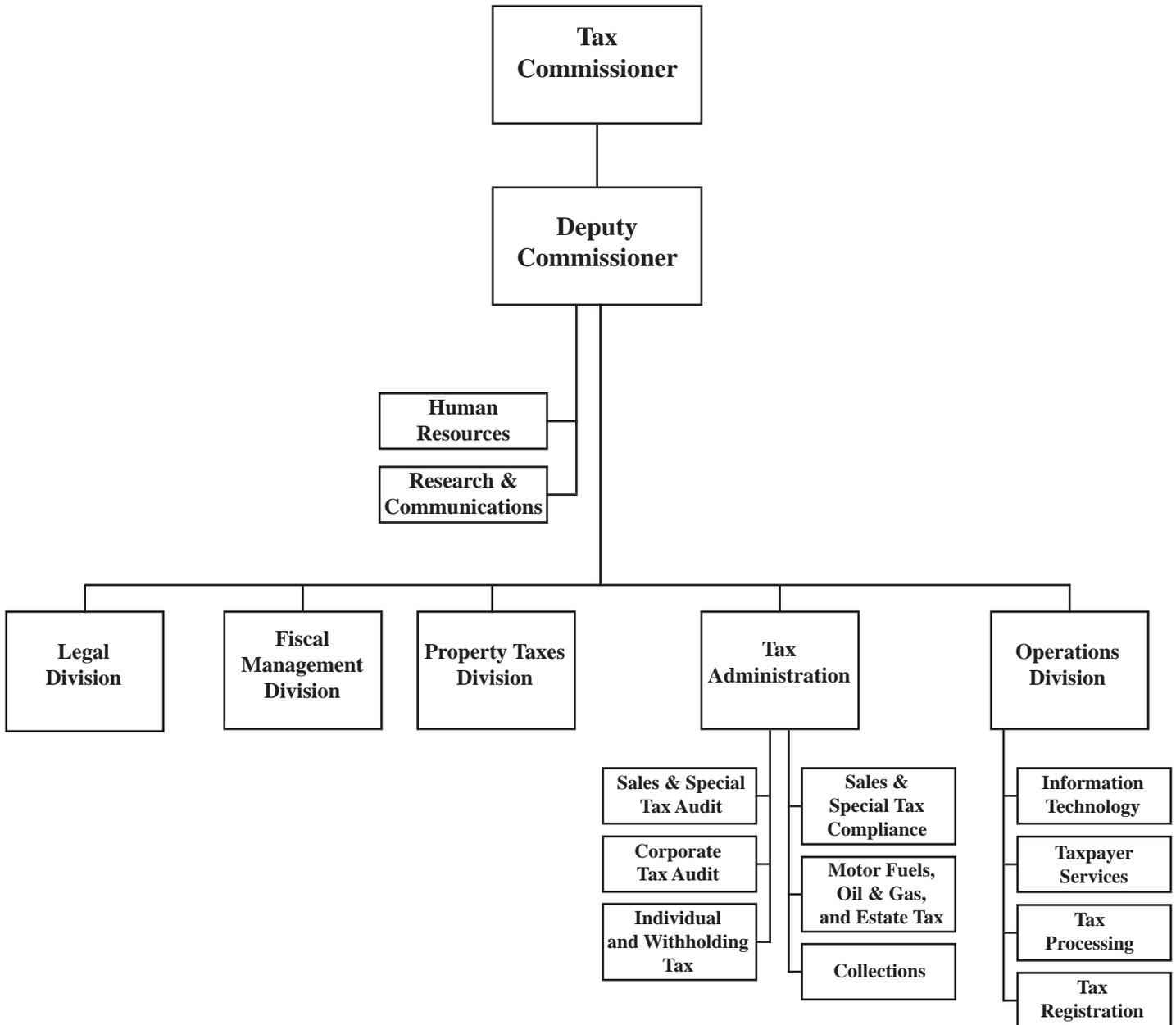
Another responsibility of the Utilities Tax Section is administering the state severance tax on coal, the coal conversion privilege tax on electrical

generating plants and coal gasification plants, and the tax on cooperative-owned transmission lines of 230 kilovolts or larger. The section audits reports of collections of these energy-related taxes. The Utilities Tax Section also prepares reports on the collection of these taxes and information for revenue distribution by the State Treasurer's Office, which is responsible for allocating revenue from these taxes among the state, the counties where the mines, plants and transmission lines are located, and a permanent Coal Development Trust Fund.

The Property Tax Division annually certifies to county directors of tax equalization in each of the state's 53 counties the average true and full agricultural value of farmland, as determined by North Dakota State University. It is this value on which the counties base their assessments of agricultural property.

The staff of the Property Tax Division in the 2007-2009 biennium included five full-time positions: the state supervisor of assessments, two property tax specialists, one audit technician, and one office assistant.

Office of State Tax Commissioner Organizational Chart June 2009



Future Directions

Legislation enacted during the 2009 Legislative Assembly impacts the administration of some of North Dakota's major taxes during the 2009-11 biennium and in the years beyond. The following summarizes significant tax legislation enacted by the 2009 Legislature.

Broad-based Property Tax Relief:

- The 2009 Legislature provided for significant property tax relief by funding the equivalent of a 75 mill reduction in school district mill levies for all districts in the state. This results in an additional \$295 million in biennial funding of K-12 education by the state, and will result in reduced school district property taxes of up to 40%. Depending on the actions of other taxing jurisdictions within the county, the net reduction in total property taxes for property owners will vary, and may be as much as 15%-19% overall. The legislation also set aside \$295 million in the property tax sustainability fund, ensuring that the property tax relief continues into the 2011-13 biennium.

Across-the-Board Income Tax Relief:

- The 2009 Legislature significantly reduced the individual income tax rates, starting with tax year 2009. The rates were reduced twelve percent in all tax brackets. Additionally, the 2009 Legislature reduced the number of corporation income tax brackets from five to three, and dropped the top rate one-tenth of one percent. Coupled with the property tax relief (see above) the overall tax relief enacted by the 2009 Legislature and signed into law by the Governor reduced the tax burdens on North Dakotans by a record \$400 million for the 2009-11 biennium.

Sales Taxes:

- Repair parts used in irrigation systems were exempted from sales and gross receipts taxes.
- The sunset for the sales tax exemption for construction of wind-powered electrical generating facilities was extended from 2011 to 2015.
- A sales tax exemption was enacted for the sale of beneficiated coal.
- Legislation was enacted that exempts the purchases of tangible personal property used to construct or expand a telecommunications service infrastructure in the state.
- The early due date for May monthly sales tax returns filed at the end of each biennium was repealed.
- The sales tax exemption for Montana residents was expanded to include Montana business entities.
- Discounts and other incentives offered by vehicle manufacturers were exempted from the motor vehicle excise tax.

Income Taxes:

- The optional filing method for individuals – known as Form ND-2 – was repealed.
- The Tax Department was authorized to create a new optional simplified form for use by individual income taxpayers that do not have tax deductions or credits.

- A one-time tax credit was created for certain taxpayers ineligible for the property tax relief credit in 2007 and 2008.
- A new income tax credit for premiums paid for long-term care “partnership plan” insurance policies was created.
- A deduction from income was enacted that is equal to 30% of dividends received from a domestic corporation or certain foreign corporations that are taxed at the lower net long-term capital gains rate for federal income tax purposes. These are known as “qualified dividends” and are allowed a 30% state exclusion.
- The geothermal energy device income tax credit was allowed to Form ND-1 filers.

is above \$70. A qualifying well is allowed the reduced tax rate for the first 75,000 barrels of oil produced, or the first \$4.5 million in gross value, whichever occurs first.

- The 2009 Legislature changed the distribution formula for the Oil and Gas Gross Production Tax. The formula change removes the county ‘caps’ and increases the amount of revenue that is distributed to counties, cities, and townships.
- The share of the Oil and Gas Gross Production Tax that goes to the Impact Grant Fund was increased from \$5 million to \$8 million per biennium.

Property Tax:

- The 2009 Legislature replaced the disabled veterans’ exemption with a state-funded property tax credit.
- The Homestead Credit and Renters’ Refund programs for the elderly and disabled homeowners and renters were expanded.
- Counties were given additional time to implement use of soil type and soil classification data to determine agricultural land valuations, with penalties for non-compliance postponed until 2012.

Oil taxes:

- A new oil production incentive was enacted that provides for a reduced oil extraction tax rate of two percent for production from a horizontal well drilled and completed during the incentive period. The incentive “triggers on” when the average oil price is below \$55 and “triggers off” when the average oil price

**Comparative Statement of Collections
for the 2005-07 Biennium and the 2007-09 Biennium**

Tax Type	2005-07 Biennium	2007-09 Biennium	Increase or Decrease	
			Dollars	Percent
Sales and Use Taxes	\$915,173,613	\$1,137,453,934	\$222,280,321	24.29%
Individual Income Tax	593,055,235	687,024,815	93,969,580	15.84%
Corporation Income Tax	231,745,335	239,695,937	7,950,602	3.43%
Oil and Gas Taxes	352,116,795	799,100,341	446,983,546	126.94%
Coal Taxes	80,699,265	80,687,210	(12,055)	-0.01%
Motor Fuels Taxes	274,094,728	288,504,452	14,409,724	5.26%
All Other Taxes and Fees	306,527,888	343,713,670	37,185,782	12.13%
Total Net Collections	\$2,753,412,860	\$3,576,180,359	\$822,767,499	29.88%

Sales and Use Taxes: The robust growth in this category is due to overall increases in taxable sales and purchases. Many industry sectors experienced growth despite the national recession. North Dakota's sales growth points to a strong, and increasingly diverse economy.

Individual Income Tax: The growth in this category reflects the strength of the overall economy including an employment base that continued to grow, as well as increases in wages and salaries. Royalty payments to mineral owners also contributed to growth in this sector.

Oil and Gas Taxes: The growth in this category is due to the high world oil prices and subsequent increases in the state's oil production. World oil prices reached an all-time high in July, 2008.

All Other Taxes and Fees: The growth in this category is due primarily to increased city sales tax collections and strong financial institutions tax collections.

Statement of Collections 2007 - 09 Biennium

Description	Fiscal Year 2008			Fiscal Year 2009			2007-09 Biennium Net Total
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections	
Sales & Use Tax	\$534,977,834.95	\$4,694,211.90	\$530,283,623.05	\$621,312,194.18	\$14,141,883.28	\$607,170,310.90	\$1,137,453,933.95
Motor Vehicle Excise Tax (1)	145,197.01	493.82	144,703.19	169,701.81		169,701.81	314,405.00
City Occupancy Tax	1,482,384.35	8,066.81	1,474,317.54	1,724,363.27	5,688.08	1,718,675.19	3,192,992.73
City Sales Tax	98,063,660.07	1,496,940.48	96,566,719.59	109,678,159.36	1,413,704.74	108,264,454.62	204,831,174.21
City Restaurant and Lodging Tax	3,663,162.80		3,663,162.80	4,075,401.88		4,075,401.88	7,738,564.68
City Motor Vehicle Rental Tax	92,014.09		92,014.09	100,916.64		100,916.64	192,930.73
Individual Income Tax	392,877,838.03	83,988,486.41 *	308,889,351.62	459,115,972.25	80,980,508.78 *	378,135,463.47	687,024,815.09
Corporate Income Tax	170,237,698.14	29,500,000.00 *	140,737,698.14	133,958,239.14	35,000,000.00	98,958,239.14	239,695,937.28
Financial Institutions Tax	18,491,936.27	983,780.00	17,508,156.27	17,221,857.92	716,903.00	16,504,954.92	34,013,111.19
Cigarette Tax (Cities)	1,423,012.57	1,675.63	1,421,336.94	1,408,244.18	3,092.14	1,405,152.04	2,826,488.98
Cigarette Tax (Tribe)	63,382.91		63,382.91	65,306.31		65,306.31	128,689.22
Cigarette Tax (GF)	19,471,579.75	22,900.23	19,448,679.52	19,270,465.62	42,259.43	19,228,206.19	38,676,885.71
Tobacco Tax	3,166,687.46	1,680.03	3,165,007.43	3,394,565.83	5,687.91	3,388,877.92	6,553,885.35
Oil & Gas Gross Production Tax	209,457,068.65		209,457,068.65	221,462,333.97		221,462,333.97	430,919,402.62
Oil Extraction Tax	188,011,925.85	5,645,907.53	182,366,018.32	199,845,374.70	14,030,454.54	185,814,920.16	368,180,938.48
Telecommunications Tax	10,152,417.56		10,152,417.56	10,783,168.13		10,783,168.13	20,935,585.69
Wholesale Liquor/beer Tax	6,963,644.79	4,181.20	6,959,463.59	7,211,633.25	2,987.82	7,208,645.43	14,168,109.02
Estate Tax	87,804.70		87,804.70	41,561.74		41,561.74	129,366.44
Miscellaneous Remittances	25,364.32		25,364.32	15,320.39		15,320.39	40,684.71
Coal Severance Tax	11,585,819.24		11,585,819.24	12,096,831.92		12,096,831.92	23,682,651.16
Coal Conversion Tax	27,461,267.06		27,461,267.06	29,543,292.32		29,543,292.32	57,004,559.38
Transmission Line Tax	442,687.50		442,687.50	458,301.75	15,450.00	442,851.75	885,539.25
Music and Composition Tax	131,469.82		131,469.82	138,342.26		138,342.26	269,812.08
Sales & Use Tax Cash Bonds	124,915.27	20,852.53	104,062.74	204,957.22	91,832.72	113,124.50	217,187.24
Fuel Dealers & Inspection Fees	0.00		0.00			0.00	0.00
Motor Vehicle Fuel Tax	83,834,312.32	1,485,000.00 *	82,349,312.32	84,179,087.60	1,239,756.00 *	82,939,331.60	165,288,643.92
Special Fuel Tax	61,846,656.06	194,000.00 *	61,652,656.06	61,860,151.98	297,000.00 *	61,563,151.98	123,215,808.04
Motor Fuel Tax - Cash Bond	12,000.00	5,000.00	7,000.00	108,000.00	1,000.00	107,000.00	114,000.00
Nongame Wildlife Fund	20,191.15		20,191.15	18,010.31		18,010.31	38,201.46
Centennial Tree Trust Fund	20,764.02		20,764.02	19,814.46		19,814.46	40,578.48
Organ Transplant Support Fund	16,996.57		16,996.57	14,051.79		14,051.79	31,048.36
Airline Tax	345,817.34		345,817.34	236,265.51		236,265.51	582,082.85
Provider Assessment	3,983,220.00		3,983,220.00	3,809,125.80		3,809,125.80	7,792,345.80
TOTAL COLLECTIONS	\$1,848,680,730.62	\$128,053,176.57	\$1,720,627,554.05	\$2,003,541,013.49	\$147,988,208.44	\$1,855,552,805.05	\$3,576,180,359.10

* Represents amounts transferred to refund reserve accounts - not actual refunds.

(1) Additional Motor Vehicle Excise Tax was collected by the ND Department of Transportation. Amounts collected by DOT were \$80,654,288.59 in FY08 and \$76,219,311.51 in FY09.

Net Collections For Fiscal Years Ended June 30, 2000 to 2009

TAX TYPE	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Sales and Use Taxes (1)	\$326,384,604 (2)	\$340,214,298 (2)	\$335,727,423 (2)	\$360,908,220 (2)	\$368,703,306 (2)	\$411,791,675 (2)	\$429,031,992 (2)	\$486,141,621 (2)	\$530,428,326 (2)	\$607,340,013 (2)
Individual Income Tax	198,287,830	213,442,150	198,922,525	200,528,205	214,145,899	241,319,731	274,621,741	318,433,494	308,889,352	378,135,463
Corporation Income Tax	47,528,001	51,606,853	41,600,758	46,027,577	40,257,083	62,669,889	111,789,587	119,955,749	140,737,698	98,958,239
Oil Extraction Tax	21,023,977	24,793,997	17,068,846	22,618,069	25,638,914	45,566,628	61,767,934	67,187,829	182,366,018	185,814,920
Gross Production Tax	38,041,008	46,029,027	36,515,072	43,477,533	47,519,075	74,046,219	104,378,689	118,782,343	209,457,069	221,462,334
Coal Taxes (3)	38,959,421	39,539,107	38,200,783	39,448,602	40,556,785	37,723,016	39,799,251	40,900,014	39,047,086	41,640,124
Motor Fuel Taxes (4)	111,937,585	112,685,871	111,635,118	115,252,746	119,934,491	122,239,373	134,124,474	139,970,254	144,001,968	144,502,484
All Other Taxes & Fees (5)	108,699,368	117,682,317	121,457,316	131,232,956	124,855,264	135,508,194	147,982,117	158,545,771	165,700,036	177,699,228
TOTAL NET COLLECTIONS	\$890,861,795	\$945,993,620	\$901,127,841	\$959,493,908	\$981,610,817	\$1,130,864,726	\$1,303,495,785	\$1,449,917,075	\$1,720,627,554	\$1,855,552,805

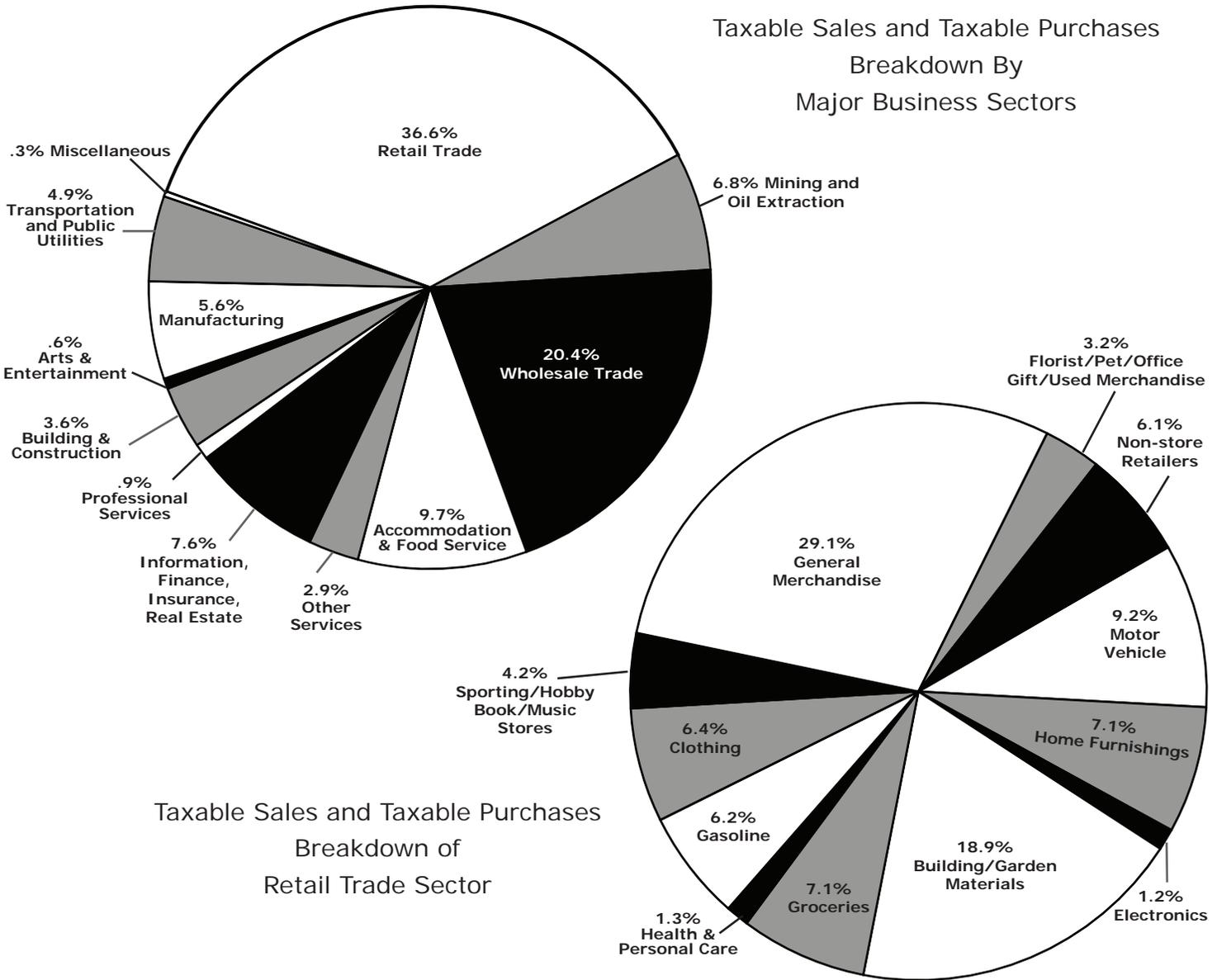
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- (1) Includes sales and use tax, motor vehicle excise tax.
- (2) The Department of Transportation collects the majority of the motor vehicle excise taxes. These collections are not included in the amounts listed here. DOT collections of motor vehicle excise tax totaled \$59,955,616 in FY-00, \$58,425,033 in FY-01, \$65,827,141 in FY-02, \$63,947,770 in FY-03, \$69,737,893 in FY-04, \$68,784,172 in FY-05, \$66,533,250 in FY-06, \$69,840,023 in FY-07, \$80,654,289 in FY-08, and \$76,219,312 in FY-09.
- (3) Includes coal severance tax and coal conversion facilities privilege tax.
- (4) Includes motor vehicle fuel and special fuel taxes.
- (5) Includes cigarette tax, tobacco tax, estate tax, financial institutions tax, transmission lines tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, nongame wildlife contributions, centennial trees contributions, organ transplant support contributions, city restaurant and lodging, miscellaneous remittances, provider assessment, telecommunications tax, wholesale liquor tax, airline tax, and city motor vehicle rental tax.

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

Taxable Sales and Taxable Purchases in the 2007-09 Biennium

Taxable Sales and Taxable Purchases
Breakdown By
Major Business Sectors



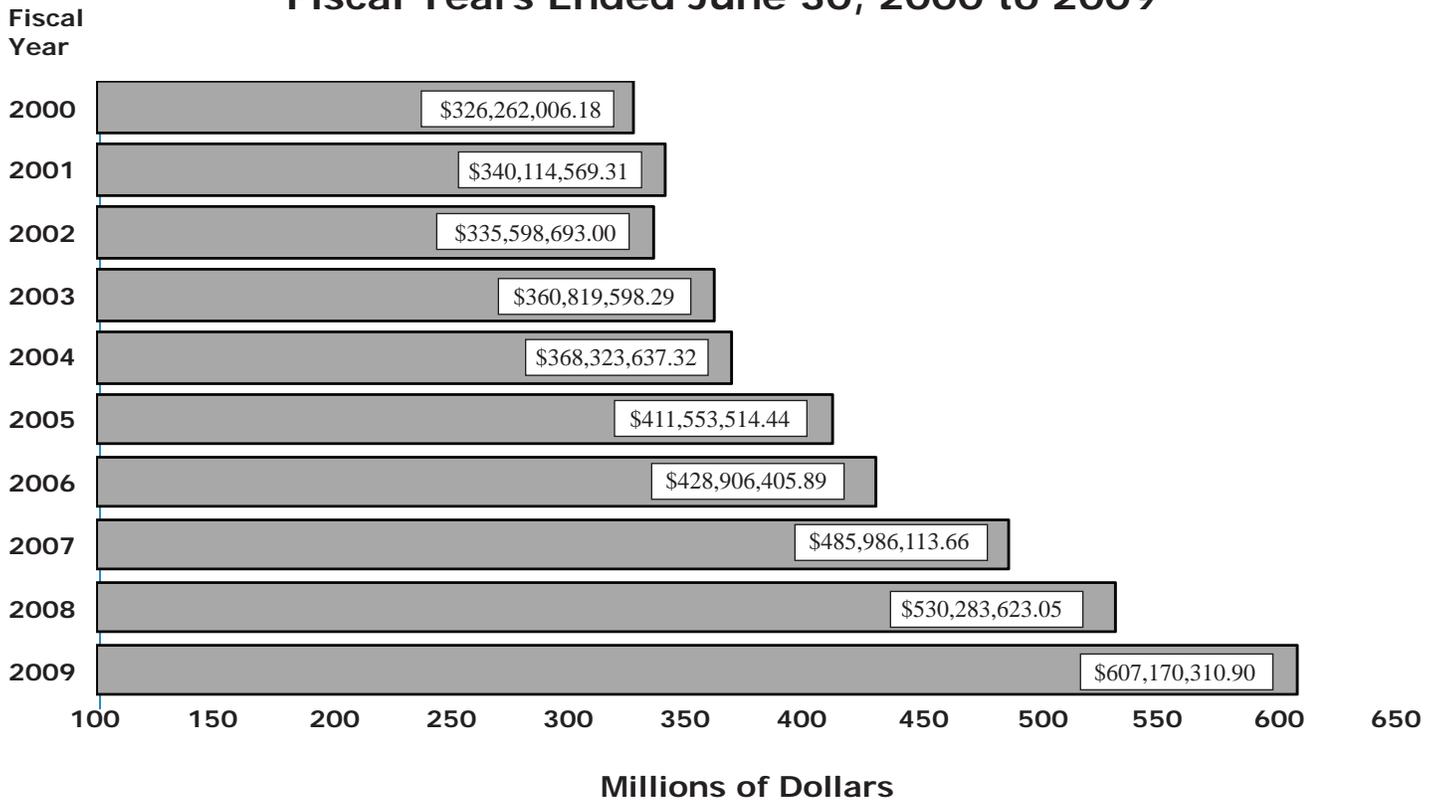
SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports

The sales tax is levied upon the gross receipts from retail sales of tangible personal property; furnishings or service of steam, gas and communication services; recreation and amusement receipts; magazines and periodicals; leasing or renting of hotel, motel or tourist court accommodations; leasing or renting of tangible personal property

The use tax is imposed upon any tangible personal property purchased at retail for storage, use, or consumption in this state and not subject to the North Dakota sales tax, unless otherwise exempt by law. Generally this tax applies on purchases of tangible personal property at retail outside North Dakota for use in this state when such purchases are made from a retailer who does not collect a sales and use tax. Many purchases made over the Internet are subject to the use tax. Under these circumstances, the purchaser must remit the tax directly to the Office of State Tax Commissioner.

Sales Tax permit holders are categorized through the use of the North American Industrial Classification System, generally referred to as "NAICS" codes. The NAICS system is used by government and business throughout the United States to facilitate record keeping and the compilation of statistics regarding business and industry.

Sales and Use Tax Collections During Fiscal Years Ended June 30, 2000 to 2009



Distribution of Sales Tax Collections

	<u>Total Revenues</u>	<u>State General Fund</u>	<u>State Aid Distribution Fund</u>
Fiscal Year 2000	326,262,006.18	300,161,047.36	26,100,958.82
Fiscal Year 2001	340,114,569.31	312,905,418.95	27,209,150.36
Fiscal Year 2002	335,598,693.00	308,750,797.56	26,847,895.44
Fiscal Year 2003	360,819,598.29	331,954,030.38	28,865,567.91
Fiscal Year 2004	368,323,637.32	338,942,963.00	29,380,674.32
Fiscal Year 2005	411,553,514.44	378,815,329.96	32,738,184.48
Fiscal Year 2006	428,906,405.89	394,697,753.30	34,208,652.59
Fiscal Year 2007	485,986,113.66	447,233,112.63	38,753,001.03
Fiscal Year 2008	530,283,623.05	487,878,782.95	42,404,840.10
Fiscal Year 2009	607,170,130.90	558,606,900.84	48,563,410.06
Fiscal Year 2008	530,283,623.05	487,878,782.95	42,404,840.10
Fiscal Year 2009	607,170,310.90	558,606,900.84	48,563,410.06

Sales and Use Tax

Generally, the North Dakota sales and use tax is imposed on the gross receipts of retailers. The tax is paid by the purchaser and collected by the retailer. Currently, the sales and use tax rates are as follows:

- The general rate is 5%.
- The rate on retail sale of alcoholic beverages is 7%.
- The rate on new farm machinery is 3%.
- The rate on new mobile homes is 3%.

A brief history of changes to the sales tax base and rates follows:

Effective July 1, 1991, manufacturing or processing machinery and equipment used by new or expanding manufacturers or agricultural producers was exempted from the sales tax. Additionally, an exemption was created for production equipment in new, large lignite-burning power plants and for other tangible personal property used in construction of the power plant.

Effective January 1, 1993, the sales tax rate for natural gas was reduced from 5% to 4%, and was further reduced in 1% increments becoming 2% effective January 1, 1995.

Effective July 1, 1993, the exemption for manufacturing machinery and equipment was broadened to include recycling machinery and equipment. The definition of what equipment qualifies for the manufacturing exemption was further broadened in a July 1994 special session to include all equipment utilized until final transportation from the site, and to include research and development equipment.

Effective July 1, 1995, the sale of recapping and retreading services for tires became subject to the sales tax.

Effective July 1, 1997, the exemption for purchases made by an out-of-state political subdivision was modified to include only those that exempt purchases made by a North Dakota political subdivision.

Effective May 1, 1999, the sales tax rate on used farm equipment and farm repair parts was decreased from 3% to 1.5%.

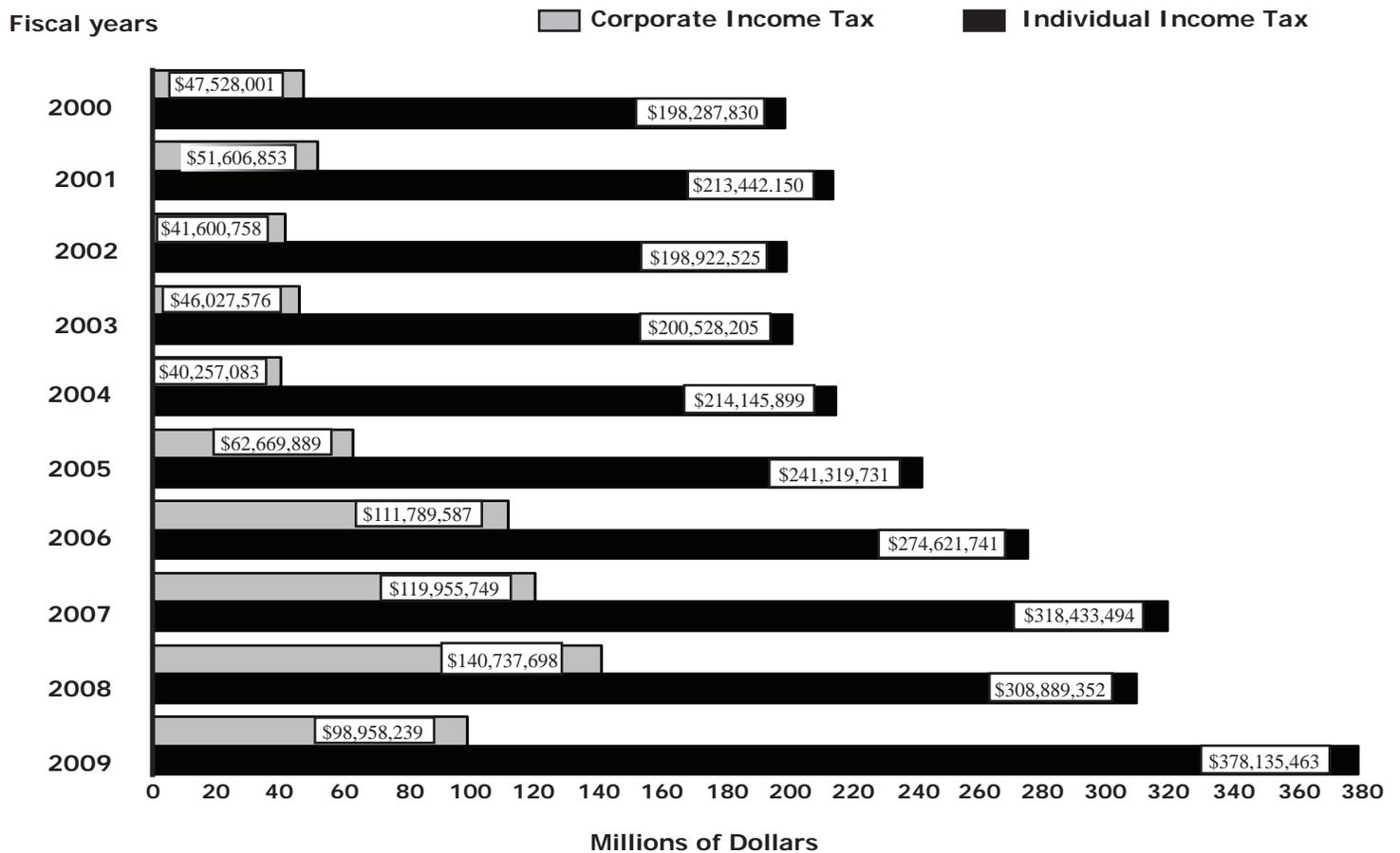
Effective July 1, 2002, used farm equipment and farm repair parts became exempt from sales tax.

Effective July 1, 2003, the sales tax rate was increased to 6% for hotel and motel rooms. The receipts from this additional 1% was to assist with the promotion of the various Lewis and Clark Bicentennial events being held throughout the state. This tax expired June 30, 2007.

Effective July 1, 2005, the State enacted and adopted the national Streamlined Sales Tax Project.

Effective July 1, 2009, the sale of natural gas became exempt from sales tax. A sales tax exemption was also enacted for irrigation system repair parts, and for property used to compress, process, gather, or refine gas produced from an oil or gas well in the state.

Net Individual and Corporate Income Tax Collections During Fiscal Years Ended June 30, 2000 to 2009



Individual Income Tax

The individual income tax rates were 14% of adjusted federal income tax liability for tax years through 2000. Beginning in 2001, the individual income tax rates range from 2.1% to 5.54% of North Dakota taxable income. Tax brackets are adjusted for inflation annually. For tax years 2007 and 2008, taxpayers were allowed a property tax relief income tax credit, which reduced collections in FY 2008 and FY 2009.

Recent increases in individual income tax collections are due to a strong and diverse economy, strong wage growth, and favorable commodity prices.

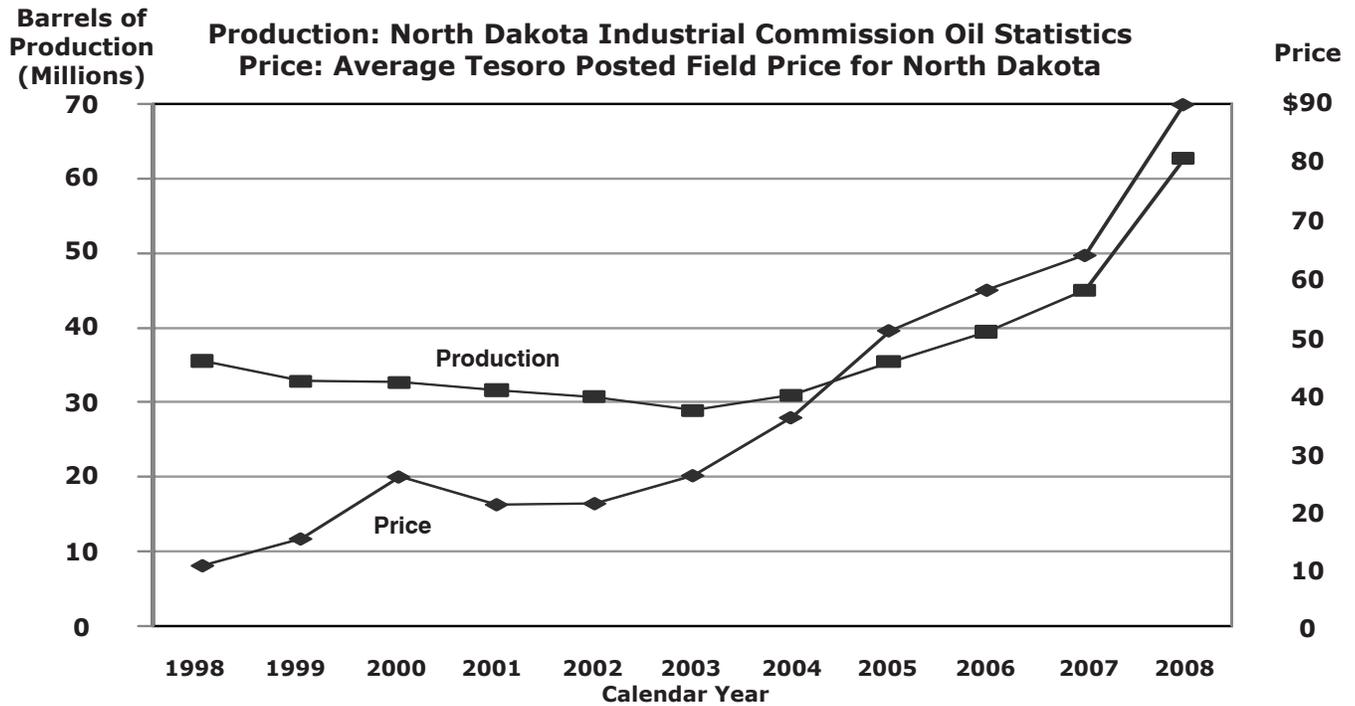
Individual income tax revenues are deposited in the State General Fund.

Corporate Income Tax

Recent increases in corporation income tax collections are due to a strong economy, high oil prices, and record audit collections. Corporate collections softened in FY 2009 partially due to the national recession, and partially due to the property tax relief income tax credit.

Corporation income tax revenues are deposited in the State General Fund.

Annual Crude Oil Production in North Dakota and Domestic Oil Price Per Barrel During Calendar Years 1998 to 2008



Oil and Gas Gross Production and Oil Extraction Tax Revenues 2007-09 Biennium

		<u>Net Revenue</u>	<u>State General Fund Share of Net Revenue</u>
Oil & Gas Gross Production Tax	Fiscal Year 2008	\$209,457,069	\$162,516,607
Oil & Gas Gross Production Tax	Fiscal Year 2009	221,462,334	171,831,427
Oil Extraction Tax	Fiscal Year 2008	182,366,018	109,419,611
Oil Extraction Tax	Fiscal Year 2009	185,814,920	<u>111,488,952</u>
Total State General Fund Share			\$555,256,596
Statutory Cap			<u>71,000,000</u>
Transfer to Permanent Oil Trust Fund			\$484,256,596

Oil and Gas Gross Production Tax

The gross value of oil production at the well, less any part which is specifically exempt, is taxed at a rate of 5% in lieu of property taxes on the oil and gas producing properties. Gas production is taxed on a volume basis at a rate determined by the movement of a fuels cost index. During fiscal year 2008, gas production was taxed at the rate of 14.28¢ per 1,000 cubic feet (MCF). In fiscal year 2009, the tax rate was 14.76¢ per MCF.

Thirty-three and one-third percent of the first one-fifth of the oil and gas gross production tax revenue, up to \$5 million, is distributed to the Oil Impact Grant Fund. The remaining 66.7% of the first one-fifth of the tax revenue is distributed to the State General Fund. The remaining four-fifths of the tax revenue is distributed between the county in which the oil or gas is produced and the State General Fund according to the following distribution schedule: The first \$1 million each year is distributed to the producing county; the second \$1 million is distributed 75% to the county and 25% to the State General Fund; the third \$1 million, 50% to the county, 50% to the State General Fund; amounts over \$3 million, 25% to the county, 75% to the State General Fund. However, the amount that any one county can receive from each fiscal year of production is limited according to population as follows: population up to 3,000, no more than \$4.9 million; population between 3,000 and 6,000, no more than \$5.1 million; population of 6,000 and greater, no more than 5.6 million. When a county reaches its maximum amount allowed, the entire four-fifths share of subsequent revenue from fiscal year production is deposited in the State General Fund. The county allocation is apportioned as follows: 45% to the county general fund, 35% to the school districts within the county and 20% to the incorporated cities.

Any oil tax revenue in the State General Fund in excess of \$71 million in any given biennium is transferred to the Permanent Oil Taxes Trust Fund. Up to 2% of the State General Fund share is transferred to the Oil and Gas Research Fund.

Oil Extraction Tax

The oil extraction tax became effective January 1, 1981, as a result of an initiated measure passed by the citizens of North Dakota. The gross value of oil production at the well, less any part which is specifically exempt, was taxed at 6.5%.

The 1987 Legislative Assembly changed the oil extraction tax with respect to new wells, secondary and tertiary recovery projects, and low production (stripper) wells. Oil produced from new wells drilled and completed after April 27, 1987, was exempted from the oil extraction tax during the first 15 months following the well's completion. After the 15 month exemption period, the oil produced from the qualifying new well was subjected to a reduced oil extraction tax rate of 4%. The 4% tax rate may also apply to oil produced from a well in a qualifying secondary or tertiary recovery project. The legislature expanded the definition of stripper well property to allow more wells to qualify for the stripper well exemption.

Effective July 1, 1987, the oil extraction tax exemption for the private royalty interest was eliminated.

The 1989 Legislative Assembly provided a one year exemption from the oil extraction tax for qualifying work-over projects.

The 1991 Legislative Assembly provided a time-limited exemption from the oil extraction tax for incremental oil produced from an enhanced recovery project. Upon expiration of the exemption, incremental oil produced by the project qualifies for a 4% oil extraction tax rate. Nonincremental oil may qualify for a reduced tax rate of 4%.

The 1993 Legislative Assembly modified the definition of a qualifying work-over project. Upon completion of the work-over exemption, the project qualifies for a 4% oil extraction tax rate. The 1995 Legislature also modified exemptions and created new ones.

In the 2007-09 biennium, the oil extraction tax revenue was distributed according to a formula which allocated 60% of the revenue to the State General Fund, 20% to the Resources Trust Fund and 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund. The State General Fund share in excess of \$71 million, in any given biennium, is transferred to the permanent oil taxes trust fund. Up to 2% of the State General Fund share is transferred to the Oil and Gas Research Fund.

Coal Conversion Tax 2007-09 Biennium

Kilowatt Hours Produced During the 2007-09 Biennium

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>
Total Kwh Produced	28,830,728,930	30,437,621,000

Distribution of Coal Conversion Tax Revenue - 2007-09 Biennium

<u>Distribution</u> <u>Fund</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>
Counties	\$3,617,856.72	\$3,947,750.67
State General Fund	<u>23,843,410.34</u>	<u>25,595,541.65</u>
Total Revenue Collected	\$27,461,267.06	\$29,543,292.32

Coal Conversion Facilities Tax: Facilities that process or convert coal are subject to the coal conversion facilities tax unless expressly exempted by statute. Electrical generating plants that have a single generating unit with the capacity of 10,000 kilowatts or more are subject to the coal conversion facilities tax. Electrical generating plants are subject to two conversion tax levies. One levy is .65 mill times 60% of installed capacity times the number of hours in the taxable period. The revenue from this levy is distributed 85% to the State General Fund and 15% to the county in which the plant is located. The other levy is .25 mill per kwh of electricity produced for sale. The revenue from this levy is distributed to the State General Fund.

Also subject to the coal conversion facilities tax is the coal gasification plant. This tax is the greater of: (A) 4.1% of gross receipts, excluding revenues derived from by-products (up to a maximum of 20% of gross receipts) and revenue from synthetic natural gas produced in excess of 110 million cubic feet per day, or (B) 13.5¢ on each 1,000 cubic feet of synthetic natural gas produced up to 110 million cubic feet per day. The U.S. Department of Energy operated the coal gasification plant from August 1, 1985, through October 31, 1988, during which time the plant was exempt from the coal conversion facilities tax. The plant was purchased by the Dakota Gasification Company, which began taxable production November 1, 1988. The new owner was exempt from the state's share (65%) of the tax for five years from the date of purchase because of provisions enacted by the 1987 Legislative Assembly. (This exemption expired October 31, 1993). Throughout the five year exemption from the state's share, the plant was subject to the county share of the tax (35% at that time).

The 1989 Legislative Assembly enacted a special coal conversion facilities tax on coal beneficiation plants of 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of the plant design capacity.

The 1991 Legislative Assembly enacted a five-year exemption from part or all of the tax for new lignite-burning electrical generating plants.

The 1997 Legislative Assembly exempted from the Coal Conversion Facilities Tax the revenue from the sale of by-products, to a maximum of thirty-five percent of gross receipts, for a four-year period beginning January 1, 1997. Revenue from the sale and transportation of carbon dioxide for use in enhanced recovery of oil and natural gas was also exempted from this tax.

The 2001 Legislative Assembly 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% of installed capacity times the number of hours in the taxable period. Distribution of the tax on installed capacity changed to allocate 85% to the State General Fund and 15% 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% to 4.1%. Through December 31, 2009, 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% to the State General Fund and 15% 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.

Coal Severance Tax 2007-09 Biennium

Tonnages Severed During the 2007-09 Biennium

Taxable Tons Severed:

<u>County</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>
Bowman	88,053	103,954
McLean	7,608,632	8,053,698
Mercer	15,898,644	16,527,322
Oliver	5,583,427	5,770,798
Williams	0	2,700
Total Taxable Tons Severed	29,178,756	30,458,472

Distribution of Coal Severance Tax Revenue - 2007-09 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>
Counties (70%)	\$7,701,570.88	\$8,041,363.74
Land Board (30%)	3,303,673.24	3,446,298.74
Lignite Research (add'l. 2¢ per ton)	<u>583,575.12</u>	<u>609,169.44</u>
Total Revenue Collected	\$11,585,819.24	\$12,096,831.92

Coal Severance Tax

The Coal Severance Tax was enacted by the 1975 North Dakota Legislative Assembly. This tax is applied to coal severed from the ground on a rate per ton basis. The 1975 law provided for a 50¢ per ton with an escalator clause that increased the tax 1¢ per ton for each three point increase in the Wholesale Price Index. The 1975 law was made effective July 1, 1975.

The revenues collected during the 1975-77 biennium were distributed according to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 30% to a special trust fund to be administered by the State Land Board.
3. 5% to coal-producing counties.
4. 30% to the State General Fund.

The 1975 law was replaced with the 1977 law, changing the rate and distribution formula. The 1977 law, effective July 1, 1977, provided for a 65¢ per ton with an escalator clause that increased the tax 1¢ per ton on a quarterly basis for every one point increase in the Wholesale Price Index.

The 1977 law also changed the distribution of revenues to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 15% to a special trust fund to be administered by the State Land Board.
3. 20% to coal-producing counties.
4. 30% to the State General Fund.

The 1977 law was replaced with the 1979 law. The 1979 law, effective July 1, 1979, provided for an 85¢ per ton tax with an escalator that would increase the tax 1¢ per ton on a semi-annual basis for every four point increase in the Wholesale Price Index (now known as the Producer Price Index). The distribution of revenues remained the same.

The 1981 Legislative Assembly exempted from the coal severance tax coal used by the state or any of its political subdivisions and coal used for heating buildings within the state. Coal used for heating purposes became subject to the sales tax.

The 1985 Legislative Assembly exempted from the coal severance tax coal used in agricultural processing or sugar beet refining plants within North Dakota or adjacent states. Also, the tax rate was reduced by 50% for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

The 1987 Legislative Assembly amended the coal severance tax law, removing the escalator clause and reducing the tax rate from \$1.04 to 75¢ per ton and enacting an additional temporary tax of 2¢ per ton dedicated to lignite research. The 1987 law also changed the distribution of the revenue to the following formula:

1. 15% to a special trust fund to be administered by the State Land Board
2. 35% to coal-producing counties
3. 50% to the State General Fund

The 1989 Legislative Assembly made the two cents per ton tax for lignite research a permanent tax. A resolution was passed which placed on the Primary Election ballot a constitutional amendment to allow up to 50% of the tax collected and deposited in the permanent trust fund during a biennium to be appropriated by the Legislative Assembly for lignite research, development and marketing. The measure was approved by the voters and became effective July 1, 1990.

The 1993 Legislative Assembly limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. The uses of the trust fund were expanded to include loans for school construction. Coal shipped out of state after June 30, 1995, and before July 1, 2000, was made exempt from the state's 50% portion of the tax; counties may grant a partial or complete exemption from the county's 35% portion. A constitutional amendment was placed on the June 1994 Primary Election ballot that allowed 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 amendment was approved by the voters.

The 2001 Legislative Assembly reduced the tax rate from 75¢ per ton to 37.5¢ per ton and eliminated the distribution to the State General Fund. The allocation was changed to 30% to the coal development trust fund and 70% to the coal producing counties.

Transmission Line Tax Collections

Collections represent payments made by cooperatives and certain investor-owned utilities that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of \$225.00 per mile or \$300 per mile for lines initially placed in service after October 1, 2002.

	<u>2005-07 Biennium</u>		<u>2007-09 Biennium</u>	
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Transmission Line Tax	\$415,500.75	\$415,478.25	\$442,687.50	\$442,851.75

SOURCE: Property Tax Division, Office of State Tax Commissioner

Rural Electric Cooperatives

Rural electric cooperatives are nonprofit cooperative corporations engaged in the distribution or transmission of electric energy primarily for consumption in rural areas. Rural electric cooperatives also include those nonprofit cooperative corporations engaged in the generation of electric energy primarily for consumption in rural areas. The electrical energy generating units of such plants are under 100,000 kilowatts of generating capacity. Such plants are taxable pursuant to N.D.C.C. ch. 57-33.

Rural electric cooperatives are taxed at 1% of their gross receipts each year for the first 5 years and 2% each year thereafter in lieu of taxes on all property except land. The tax of each rural electric cooperative is certified by the Tax Commissioner to the counties for collection and is allocated by the county auditor to the taxing district in which the rural electric line or plant is located.

Taxes Certified for Collection for the Years: *

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Rural Electric Cooperative	\$6,145,700.27	\$6,437,891.46	\$6,894,155.37	\$7,809,437.19

SOURCE: Property Tax Division, Office of State Tax Commissioner

*These taxes are certified in the fall of the indicated years and payable in the following year.

Telecommunications Carriers

Beginning with tax year 1998, all telecommunications companies including mutual and cooperative telephone companies pay a gross receipts tax at the rate of 2½ percent of adjusted gross receipts. The tax is payable to the State Tax Commissioner and is in lieu of all real and personal property taxes on property directly used by a telecommunications carrier in its telecommunications operations. There is a standing appropriation of \$8.4 million which the State Treasurer distributes annually to counties and their political subdivisions according to a statutory formula, regardless of the amount generated by the gross receipts tax.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Telecommunications Tax Assessed	\$10,124,913.49	\$9,753,075.91	\$10,333,459.38	\$10,854,946.86

SOURCE: Property Tax Division, Office of State Tax Commissioner

Financial Institutions Tax

The 1997 North Dakota Legislature passed legislation changing the tax law covering financial institutions. The legislation repealed North Dakota Century Code chs. 57-35, 57-35.1 and 57-35.2, and replaced them with a new chapter, N.D.C.C. ch. 57-35.3. The legislation is effective for taxable years beginning on or after January 1, 1997.

The tax under N.D.C.C. ch. 57-35.3 is imposed on every financial institution for the privilege of transacting business in North Dakota. The definition of financial institution includes not only banking entities, but also bank holding companies, production credit associations and leasing companies.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by seven percent (7%). This amount, which may not be less than fifty dollars (\$50.00), is divided between the state general fund and the financial institution tax distribution fund for eventual distribution to the counties. The state general fund receives 2/7's of the tax while the financial institutions tax distribution fund receives 5/7's of the tax. The state general fund portion of the tax must be paid on or before April 15 following the end of the taxable year. The financial institution tax distribution fund portion of the tax must be paid on or before January 15 of the second year following the taxable year. The distribution to the counties is made on or before March 1 of each year.

Financial Institutions Tax Collections

	<u>2005-07 Biennium</u>		<u>2007-2009 Biennium</u>	
	<u>FY 2006</u>	<u>FY-2007</u>	<u>FY-2008</u>	<u>FY-2009</u>
Total Net Collections	\$ 10,978,191.39	\$ 16,154,776.00	\$ 17,508,156.27	\$ 16,504,954.92
State General Fund	\$ 4,172,320.39	\$ 5,530,042.00	\$ 5,761,402.27	\$ 4,725,092.44
Financial Institution Distribution Fund	\$ 6,805,871.00	\$ 10,624,734.00	\$ 11,746,754.00	\$ 11,779,862.48

Cigarette and Tobacco Products Net Tax Collections

	<u>2005-07 Biennium</u>		<u>2007-09 Biennium</u>	
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
3¢ per package cigarette tax distributed to cities on population basis	\$1,407,166.39	\$1,449,424.38	\$1,421,336.94	\$1,405,152.04
41¢ per package cigarette tax distributed to State General Fund	\$19,254,467.94	\$19,808,718.15	\$19,424,938.17	\$19,203,744.37
28% of the wholesale price of tobacco products distributed to State General Fund	\$2,707,489.07	\$2,864,731.38	\$3,165,007.43	\$3,388,877.92

The cigarette tax rate is 44¢ per package of 20 cigarettes. Generally, the tobacco products tax is 28% of the wholesale purchase price. Some tobacco products are taxed based on weight.

Standing Rock Sioux Tribe Cigarette and Tobacco Tax:

	<u>2005-07 Biennium</u>		<u>2007-09 Biennium</u>	
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Amount distributed to the Tribe	\$64,403.25	\$63,346.40	\$63,382.91	\$65,306.31
Amount distributed to the State General Fund	\$24,123.57	\$23,840.07	\$23,741.35	\$24,461.82

The Office of State Tax Commissioner acts as an agent for the Tribe in the collection of a tribal cigarette and tobacco tax. The tax rates are identical to the state cigarette and tobacco tax rates. Seventy-five percent of the collection, less a 3% administrative fee is returned to Standing Rock Sioux Tribe. The administrative fee plus 25% of the collections are deposited into the State General Fund.

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

Airline Tax

Operating real property of air transportation companies is assessed by the State Board of Equalization. The taxes are computed and collected by the Tax Commissioner and certified to the State Treasurer for distribution. The taxes upon air transportation companies are allocated by the State Treasurer to the city or municipal airport authority where each company makes regularly scheduled landings according to the ratio that the value of the company's assessable property at a given city or municipal airport bears to the total value of the company's assessable property located in North Dakota.

TAXES CERTIFIED TO STATE TREASURER FOR THE YEARS: *

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Airlines	\$209,710.65	\$215,953.98	\$204,969.16	\$235,747.80

* Airline assessments of real property are determined by the State Board of Equalization in August of each year. The tax due amounts are computed in the spring of the following year using the average mill rate for cities operating airports served by scheduled airlines.

SOURCE: Property Tax Division, Office of State Tax Commissioner.

**Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes
Collections and Disbursements 2007-2009 Biennium**

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Collections - Tax, Penalty, Interest, & Fees	FY-2008 Dollars	FY-2009 Dollars
Aviation Fuel:		
Aviation Gasoline - at \$.23 Per Gallon	\$149,181.77	\$170,964.62
Jet Fuel - at \$.08 Per Gallon	1,126,330.45	1,100,302.21
Penalty and Interest	157.85	100.62
<i>Total Collections</i>	<u>\$1,275,670.07</u>	<u>\$1,271,367.45</u>
Total Refunded	18,417.21	28,085.96
<i>Net Collections</i>	<u>\$1,257,252.86</u>	<u>\$1,243,281.49</u>
 Motor Vehicle Fuel:		
Gasoline - at \$.23 Per Gallon	\$36,328,738.32	33,882,057.16
Gasohol - at \$.23 Per Gallon	45,249,977.17	47,776,032.04
Penalty and Interest	38,226.64	39,961.37
<i>Total Collections</i>	<u>\$81,616,942.13</u>	<u>\$81,698,050.57</u>
Total Refunded	1,107,565.64	1,539,815.21
<i>Net Collections</i>	<u>\$80,509,376.49</u>	<u>\$80,158,235.36</u>
 Special Fuel:		
Diesel-Propane - at \$.23 Per Gallon	\$48,068,237.09	\$47,809,777.77
Diesel-Heating-Kerosene-Propane - at 2% or \$.04 Per Gallon	12,644,731.30	12,022,757.89
Heating	774,974.43	1,488,674.79
Penalty and Interest	61,614.58	47,057.75
<i>Total Collections</i>	<u>\$61,549,557.40</u>	<u>\$61,368,268.20</u>
Total Refunded	200,186.43	266,508.31
<i>Net Collections</i>	<u>\$61,349,370.97</u>	<u>\$61,101,759.89</u>
 Consolidated Laboratories Inspection Fees:		
From Motor Vehicle Fuel	\$90,964.92	92,380.31
From Special Fuels (except propane)	120,172.03	123,833.65
<i>Total Collections</i>	<u>\$211,136.95</u>	<u>\$216,213.96</u>
 License Fees:		
Aviation Fuel Tax Licenses	\$40.00	\$20.00
Motor Vehicle Fuel Tax Licenses	440.00	560.00
Special Fuels (Diesel-Heating-Kerosene) Tax Licenses	3,683.73	-2,623.73
Liquefied Petroleum Gas Tax Licenses	220.00	380.00
<i>Total Collections</i>	<u>\$4,383.73</u>	<u>\$1,663.73</u>
 Cash Bonds:	<u>\$12,000.00</u>	<u>\$108,000.00</u>
 Tribal Tax Collections:		
Standing Rock Gasoline/Gasohol - at \$.23 Per Gallon	\$270,427.02	\$285,541.50
Standing Rock Diesel Fuel - at \$.23 Per Gallon	21,674.83	30,091.62
Spirit Lake Gasoline/Gasohol - at \$.23 Per Gallon	246,218.57	275,849.81
Spirit Lake Diesel Fuel - at \$.23 Per Gallon	10,904.98	13,128.57
Three Affiliated Gasoline/Gasohol - at \$.23 Per Gallon	333,609.61	555,317.96
Three Affiliated Diesel Fuel - at \$.23 Per Gallon	140,443.09	327,056.50
Total Tribe Gasoline/Gasohol - at \$.23 Per Gallon	850,255.20	1,116,709.27
Total Tribe Diesel Fuel - at \$.23 Per Gallon	173,022.90	370,276.69
 <i>Grand Total of Collections</i>	<u>\$144,669,690.28</u>	<u>\$144,660,236.45</u>
<i>Grand Total of Refunds</i>	<u>1,326,169.28</u>	<u>1,834,409.48</u>
<i>Grand Total of Net Collections</i>	<u>\$143,343,521.00</u>	<u>\$142,825,826.97</u>

Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Taxable Gallons 2007-2009 Biennium

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Taxable Gallons	FY-2008 Gallons	FY-2009 Gallons
Aviation Fuel:		
Aviation Gasoline - at \$.23 Per Gallon	1,900,039	2,083,133
Jet Fuel - at \$.08 Per Gallon	14,143,830	13,845,255
<i>Total Taxable Gallons</i>	16,043,869	15,928,388
Gallons Refunded \$.08 Per Gallon Tax at 4%		519,542
Other Refunds - US Gov Etc	226,759	178,186
<i>Net Collections at \$.08</i>	15,817,110	15,230,660
 Motor Vehicle Fuel:		
Gasoline - at \$.23 Per Gallon	159,120,935	151,112,645
Gasohol - at \$.23 Per Gallon	200,600,919	212,177,805
<i>Total Taxable Gallons</i>	359,721,854	363,290,450
Gallons on Which Tax was Refunded	8,206,542	7,408,328
<i>Net Taxable Gallons</i>	351,515,312	355,882,122
 Special Fuel:		
Diesel-Propane - at \$.23 Per Gallon	208,294,017	210,800,363
Diesel-Heating-Kerosene-Propane - at 2% or \$.04 Per Gallon	327,709,657	312,976,548
Heating	41,207,600	89,594,470
<i>Total of Taxable Gallons</i>	577,211,274	613,371,381
<i>Gallons on Which Tax was Refunded</i>	659,803	1,296,488
<i>Grand Total Net Taxable Gallons</i>	576,551,471	612,074,893
 <i>Grand Total Taxable Gallons</i>	943,883,893	983,187,675

Aviation Fuel: A per gallon tax is levied on all aviation fuel. For this biennium the tax was \$.08 per gallon. Consumers purchasing aviation fuel for use in aircraft may request a refund of the \$.08 per gallon tax. When a refund is granted, the consumer is assessed a tax of 4% of the price of the fuel. The 4% tax is assessed in lieu of the \$.08 per gallon tax and is deducted from the refund.

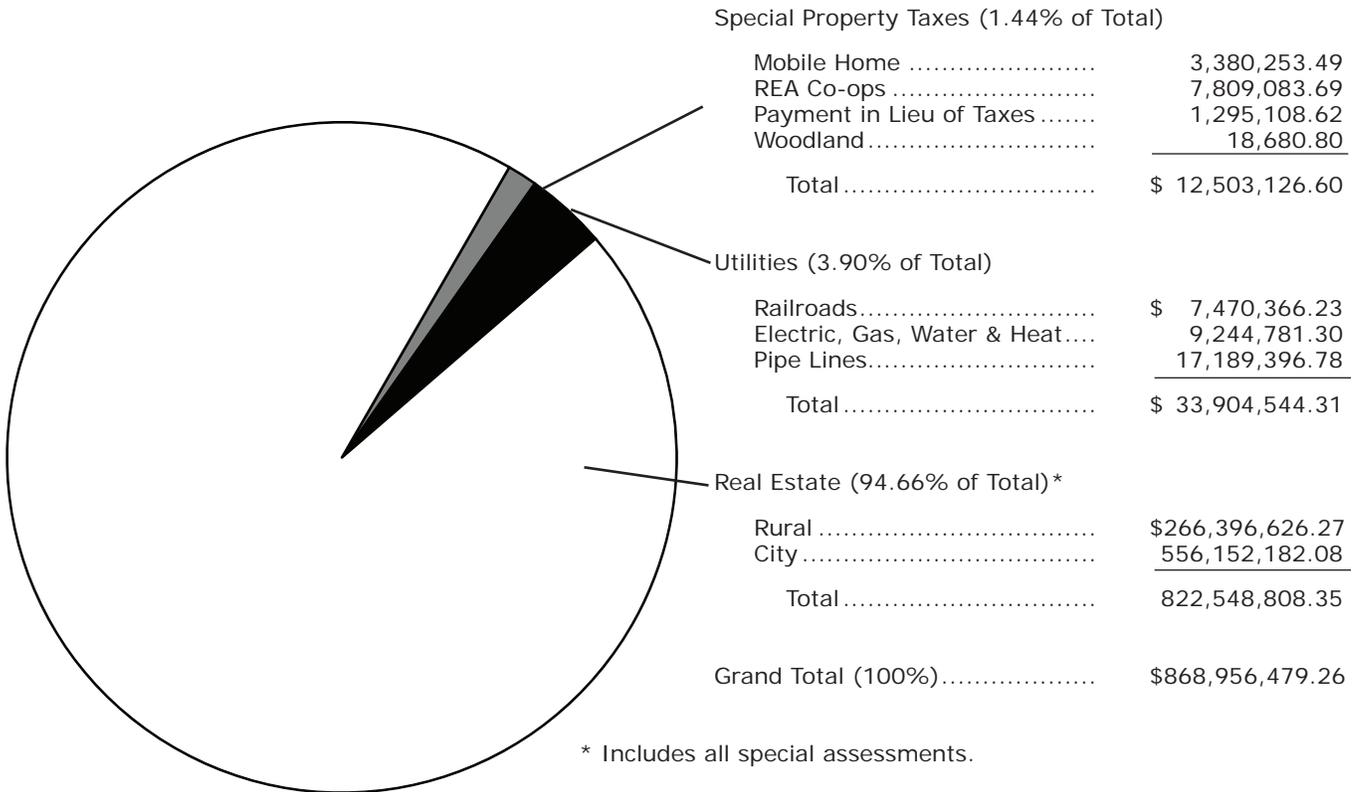
Motor Vehicle Fuel: A per gallon tax is levied on all motor vehicle fuel (gasoline and gasohol). For this biennium the tax was \$.23 per gallon. The tax is refundable when the fuel is used in nonlicensed equipment for an agricultural, industrial or railroad purpose. Refunds to industrial consumers are reduced by \$.015 per gallon. Of the \$.015 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue and \$.005 per gallon is deposited into the Agricultural Derived Fuel Tax Fund. Refunds to agricultural consumers are reduced by \$.08 per gallon. Of the \$.08 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue, \$.01 per gallon is earmarked for ethanol production incentives, \$.02 per gallon is deposited into the Agriculturally Derived Fuel Tax Fund, and \$.04 per gallon is deposited into the Agricultural Research Fund.

Special Fuels: A per gallon tax is levied on propane and kerosene used in licensed vehicles and on all clear diesel and heating fuels. For this biennium the tax was \$.23 per gallon. A tax of 2% is levied on propane and kerosene exempt from the per gallon tax and on all dyed diesel and heating fuels. Special fuel taxes are not refundable.

Administration: The fuel taxes are administered by the Tax Commissioner. The Motor Fuel Tax Section is part of the Tax Administration Division. A portion of the motor fuel tax collections are set aside in an operating fund for the administration of the tax. The remaining tax collections are disbursed according to statutes.

Tribal Taxes: The Standing Rock Sioux, Spirit Lake Tribes and Three Affiliated Tribes passed ordinances imposing a \$.23 per gallon motor vehicle fuel tax and a \$.23 per gallon special fuel tax. The State of North Dakota and the Office of State Tax Commissioner entered into an agreement to collect the tax for the Tribes.

Sources of General Ad Valorem Property Taxes, Special Property Taxes and Special Assessments (Levied in 2008 - Payable in 2009)



* Includes all special assessments.

Source: 2008 Property Tax Statistical Report compiled by the Office of State Tax Commissioner.

Property Tax

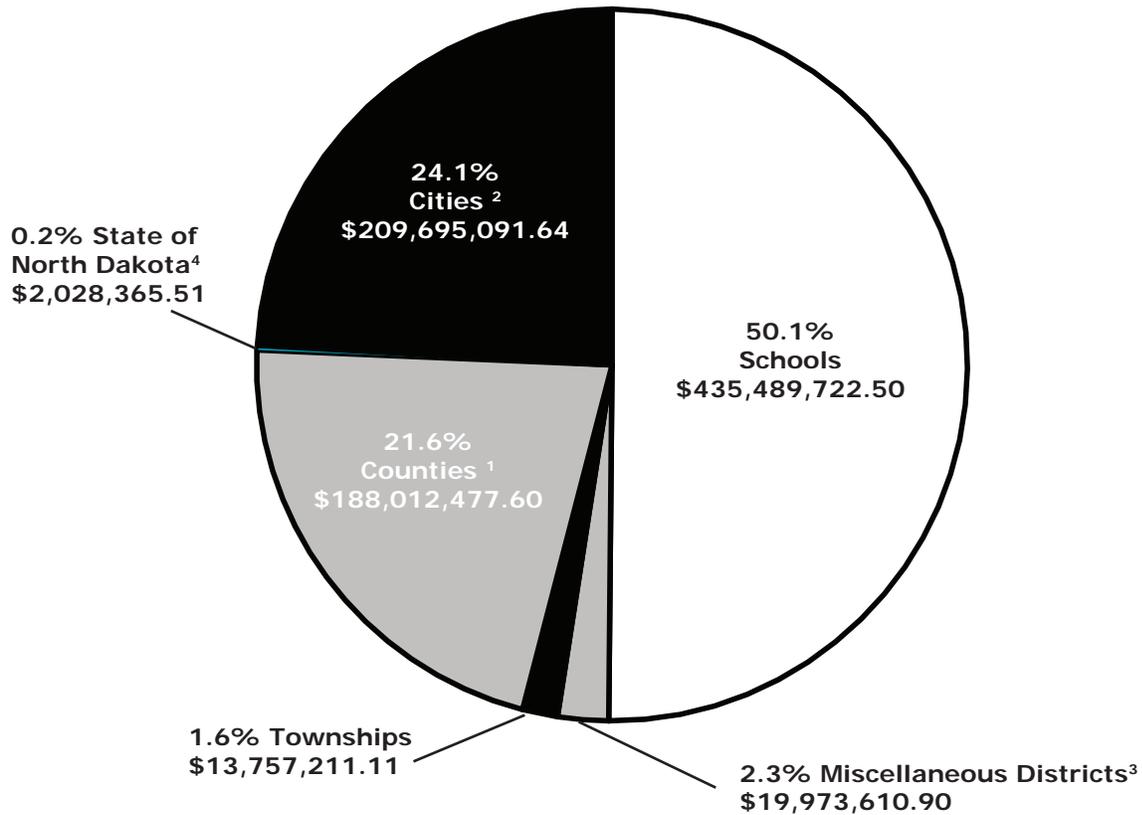
Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed locally. The property tax is collected and distributed by the county to the county, cities, townships, school districts, and other taxing districts. The North Dakota Century Code has provided that assessments be at true and full value and that assessed value be computed at 50% of true and full value. Also, true and full value of agricultural property is based upon productivity. Beginning with taxes levied in 1981 (payable in 1982) and thereafter, the assessed value is 50% of true and full value and taxable value is a percentage of assessed value according to the percentages established by the Legislature for the various classes of property as follows: residential property at 9%, commercial, railroad and airline property at 10% and agricultural property at 10%. Taxable value of centrally assessed wind turbine electric generators constructed before January 1, 2015, is 3%. Taxable value of centrally assessed wind turbine electric generators for which a purchased power agreement has been executed after April 30, 2005, and before January 1, 2006, and construction is begun after April 30, 2005, and before July 1, 2006, is 1½% of assessed value. Taxable value of centrally assessed wind turbine electric generators on which construction is completed after June 30, 2006, and before January 1, 2015, is 1½% of assessed value.

The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Rural electric cooperatives and all telecommunications companies are subject to a gross receipts tax.

Instead of a property tax, large electrical generating plants are subject to a tax on installed capacity and electricity produced for sale through the coal conversion facilities privilege tax. Large cooperative-owned transmission lines are taxed on a per mile basis. The taxes on electrical production and large transmission lines are not included in the above.

Distribution of General Ad Valorem Property Taxes Special Property Taxes and Special Assessments

(Levied in 2008 - Payable in 2009)



Grand Total - \$868,956,479.26

¹ Including County Park Districts, County Libraries, County Airports, Unorganized Townships, Water Resource and Joint Water Resource Districts.

² Including City Park Districts, City Special Assessments, and tax increments.

³ Garrison Diversion, Rural Fire Districts, Southwest Water Authority, Soil Conservation Districts, Rural Ambulance Districts, Hospital District, Recreation Service Districts and All Special Assessments for Rural Districts.

⁴ Constitutional one mill levy for the Medical Center at the University of North Dakota.

Source: 2008 Property Tax Statistical Report compiled by the Office of State Tax Commissioner.

Property Tax Refunds & Credits For Senior Citizens and Persons with Permanent and Total Disabilities

<u>Tax Year</u>	<u>Number of Persons Receiving Renter's Refunds</u>	<u>Renter Refunds Paid</u>	<u>Number of Persons Receiving Homeowner's Credits</u>	<u>Homeowner's Credits Tax Amount</u>
1992	1,534	155,205	6,743	2,254,921
1993	1,563	166,739	6,576	2,191,385
1994	1,626	175,554	6,376	2,160,304
1995	1,590	177,782	6,095	2,379,016
1996	1,499	166,841	5,680	2,072,720
1997	1,482	165,060	5,278	1,979,210
1998	1,454	173,370	4,943	1,852,373
1999	1,508	190,211	4,457	1,817,938
2000	1,417	178,406	4,232	1,815,019
2001	1,329	173,754	4,341	1,768,001
2002	1,288	172,224	4,060	1,676,737
2003	1,335	185,807	3,922	1,658,942
2004	1,322	186,896	3,817	1,655,555
2005	1,273	182,947	3,712	2,025,029
2006	1,302	188,418	3,677	2,008,310
2007	1,998	287,682	3,466	2,342,186
2008	2,051	302,362	3,441	2,396,968

The North Dakota Legislature has provided a homestead property tax credit program since 1969. Persons 65 years of age or older, or totally and permanently disabled, who meet the requirements of the program are eligible to receive a credit to reduce property taxes on their home. Qualified renters receive a partial refund of their rent. Since 1977 the maximum income eligibility limit has been adjusted by the Legislature as follows: from \$8,000 to \$9,000 in 1979, to \$10,000 in 1981, to \$12,000 in 1985, to \$13,000 in 1989, to \$13,500 in 1995, to 14,000 in 1999, to \$14,500 in 2005, to \$17,500 in 2007, and to \$26,000 in 2009.

The credit for eligible homeowners is a reduction in the taxable value of the homestead as determined by the following schedule:

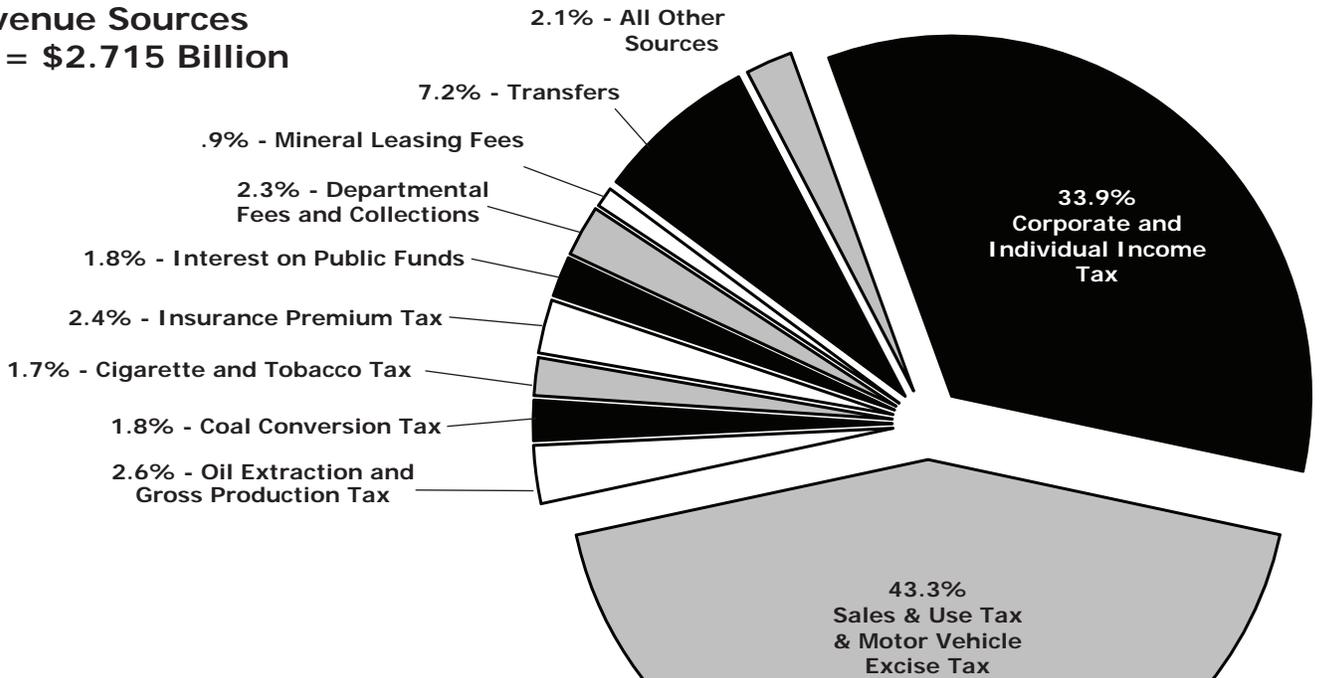
For Taxes Levied in 2007 and 2008 (Payable in 2008 and 2009)

<u>Income of</u>	<u>Reduction</u>	<u>Maximum Reduction</u>
\$ 0 - \$10,000	100%	\$3,375
\$10,001 - \$12,000	80%	2,700
\$12,001 - \$14,000	60%	2,025
\$14,001 - \$16,000	40%	1,350
\$16,001 - \$17,500	20%	675

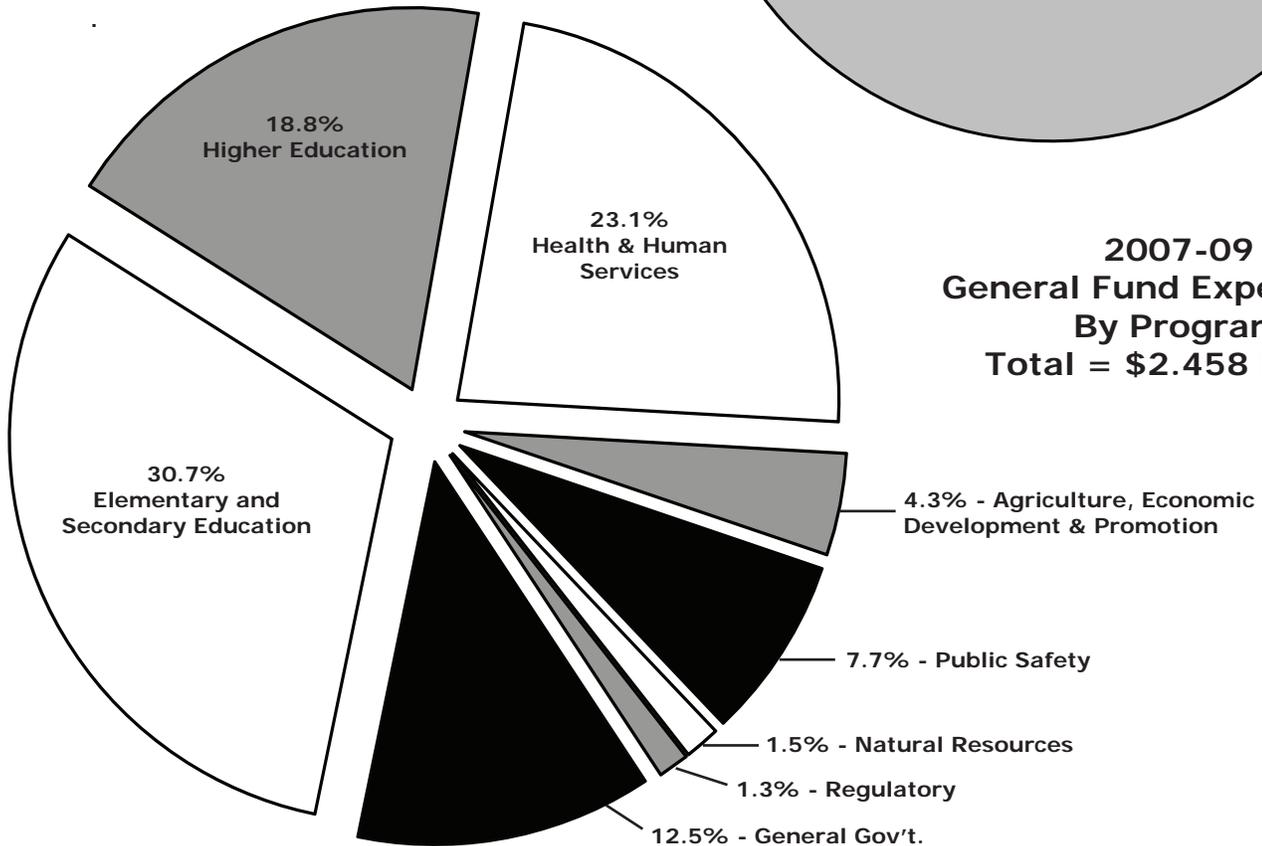
Eligible renters receive a refund of a portion of rent deemed to represent property taxes when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, light and furniture must be excluded when determining the annual rent payment for the purposes of renter's refund. The maximum refund allowable to a renter was \$240 and was increased to \$400 in 2009.

State General Fund Revenues and Expenditures in the 2007-09 Biennium

2007-09 General Fund Revenue Sources Total = \$2.715 Billion



2007-09 General Fund Expenditures By Program Total = \$2.458 Billion



SOURCE: Office of Management and Budget, October 2009.

Statement of Expenditures 2007 - 09 Biennium

Description	Commissioner's Division	Legal Division	Fiscal Mgmt. Division	Taxpayer Services Division	Property & Utility Taxes Division	Operations Division	Integrated Tax System Direct Costs	Integrated Tax System Loan Pymts	Property Tax Rebate	Homestead Tax Credit	TOTAL
Salaries and Wages											
FY 08	\$530,608.13	\$304,186.13	\$485,629.44	\$3,614,790.40	\$288,957.96	\$1,615,911.68					\$6,840,083.74
FY 09	565,522.00	332,694.92	327,392.08	3,691,595.54	303,124.47	2,056,963.82					\$7,277,292.83
Information Services											
FY 08	15,058.46	2,018.01	6,311.12	43,272.85	2,350.82	595,540.78					\$664,552.04
FY 09	11,406.22	2,260.65	2,500.64	26,226.65	2,299.39	513,811.59					\$558,505.14
Operating Expenses											
FY 08	143,324.23	30,989.38	42,968.26	690,665.66	6,866.19	304,548.86					\$1,219,362.58
FY 09	65,610.11	69,111.09	8,115.74	683,070.00	5,884.70	957,770.90					\$1,789,562.54
Equipment											
FY 08											
FY 09						15,636.93					\$15,636.93
Integrated TS											
FY 08							1,099,966.00	2,678,350.61			\$3,778,346.61
FY 09							602,142.09	2,678,350.61			\$3,280,492.70
Property Tax Rebate											
FY 08									450,016.33		\$450,016.33
FY 09									489,417.51		\$489,417.51
Homestead Tax Credit											
FY 08										2,606,618.81	\$2,606,618.81
FY 09										2,715,750.29	\$2,715,750.29
TOTAL											
FY 08	\$688,990.82	\$337,193.52	\$534,908.82	\$4,348,728.91	\$298,174.97	\$2,516,001.32	\$1,099,996.00	\$2,678,350.61	\$450,016.33	\$2,606,618.81	\$15,558,980.11
FY 09	\$642,538.33	\$404,066.66	\$338,008.46	\$4,400,892.19	\$311,308.56	\$3,544,183.24	\$602,142.09	\$2,678,350.61	\$489,417.51	\$2,715,750.29	\$16,126,657.94
BIENNIAL TOTAL	\$1,331,529.15	\$741,260.18	\$872,917.28	\$8,749,621.10	\$609,483.53	\$6,060,184.56	\$1,702,138.09	\$5,356,701.22	\$939,433.84	\$5,322,369.10	\$31,685,638.05

Resources Available From The Office of State Tax Commissioner

Many of the following publications are available on the department's web site at: www.nd.gov/tax

Administration

Brochures

- Career Opportunities
- Property Tax Relief - Income Tax Credit for Individual Taxpayers
- Tax Incentives for Business

Biennial Report of the Office of State Tax Commissioner

Taxpayer Bill of Rights

State and Local Taxes: An Overview and Comparative Guide (a.k.a. The Red Book)

Business Reports, Forms and Licenses Required in the State of North Dakota

Income, Oil, Sales, and Special Taxes

Guidelines

- Income Tax
- Income Withholding Tax
- Sales and Use Tax
- Local Option Taxes

Income Withholding Tax Information for Employers

Income Withholding Tax Tables

Information at the Source Return Requirements and Procedures

Newsletters

- Practitioners
- Oil and Gas
- Wholesale Alcohol
- Motor Fuels
- Sales and Use

Notification of the Gas Tax Rate

Sales and Use Tax Rate Charts

Statistical Reports

- Sales and Use Tax
- Income Taxes by School District

Supplemental Tax Guide for U.S. Armed Forces

Tax Law and Administrative Rules

- Alcohol Tax
- Income Tax
- Aviation Fuel Tax
- Motor Vehicle Fuel Tax
- Aviation Excise Tax
- Motor Veh. Excise Tax
- Cig. & Tobacco Taxes
- Oil and Gas Tax
- Estate Tax
- Sales and Use Tax
- Financial Inst. Tax
- Special Fuel Tax
- Gross Receipts Taxes

Property Taxes

Brochures

- Certification of North Dakota Assessment Officials
- Homestead Credit for Senior Citizens or Disabled Persons
- Property Tax Exemption for Improvements to Residential or Commercial Buildings or Structures Guidelines

Education Schedule

Guidelines

Levy Limitation Schedule

Manuals

- Supervised Home Study Manual
- Assessor's Manual
- Tax Director's Teaching Manual

Newsletter

North Dakota Sales Ratio Report

Proceedings of the State Board of Equalization

Statistical Reports

Tax Law and Administrative Rules

- Coal Conversion Tax
- Coal Severance Tax
- Property Tax

Many of these resources are available on our web site. Please visit us online at www.nd.gov/tax or contact us at:

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