



*North Dakota*

**Office of State Tax Commissioner**  
**Cory Fong, Tax Commissioner**

# **48th Biennial Report**

**For the Biennial Period of  
July 1, 2005 through June 30, 2007**





**OFFICE OF STATE TAX COMMISSIONER**  
STATE OF NORTH DAKOTA

CORY FONG  
TAX COMMISSIONER

December 3, 2007

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-Eighth Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of State Tax Commissioner for the period July 1, 2005 through June 30, 2007, and is submitted pursuant to North Dakota Century Code §§ 55-06-04 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***

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### **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 2005-2007 biennium, the Office of State Tax Commissioner was authorized 133 permanent staff members – a reduction of 24 positions from the 1995 peak.

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### **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 2005-2007 biennium:

#### **Integrated Tax System (GenTax)**

The 2005 legislature authorized the Office of State Tax Commissioner to establish an integrated tax system during the 2005-2007 biennium. The legislation authorized the Tax Department to borrow an amount not to exceed \$14.0 million for the new system.

The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance, improve over-all performance, and expand taxpayer services. Some of the benefits already experienced with the rollouts include:

- Automation in processing returns, including issuing refunds.
- Simplified waiver and penalty assessment.
- Increased speed and efficiency in entering information.
- Improved access to all taxpayer records for a specific taxpayer as more information is available for accounts due to elimination of tax "silos."
- Increased ability to track information, including information about refunds.
- Increased efficiency in applying credits from one period to another or from one tax type to another.
- More efficient use of time in reconciling quarterly sales tax collections and certification process.

## **Where's My Refund**

In January 2007, the Tax Department launched a new electronic service that allows individual taxpayers to check on the status of their income tax refund. The new service, called "Where's My Refund," is available during the income tax filing season and provides individuals a convenient and easy way to obtain accurate and current information on the status of their individual income tax refund. Taxpayers access the secure online refund system through a link on the department's web site at [www.nd.gov](http://www.nd.gov), 24 hours a day seven days a week to check the status of their refund. Once a taxpayer enters all the necessary information, they will learn: if the return was not received or if it is not processed; if the return is being processed; or the date the refund was issued. Since January 2007, the *Where's My Refund* web pages received over 48,000 visits.

## **Streamlined Sales & Use Tax**

The Streamlined Sales and Use Tax Agreement took effect October 1, 2005. This represents a nationwide effort to develop a system that simplifies sales and use tax collection and administration by retailers and states. North Dakota joined 12 other states to implement the streamlined agreement, with additional states joining at a later date.

The Streamlined Sales Tax Project (SSTP) is designed to reduce the number of sales tax rates, bring uniformity to definitions of taxable items, reduce the paperwork burden on retailers, and incorporate new technology to modernize many administrative functions. In doing so, North Dakota also provides a simplified sales and use tax system that offers electronic registration, electronic filing and payment options. For the 2005-2007 biennium the North Dakota Tax Department received over 1,400 registrations for the SSTP that generated over \$2.5 million in revenue.

## **E-File Services**

During 2007, nearly 60% (186,329) of the individual income tax returns were filed electronically. This represents 12% growth compared to the number of e-file returns received during 2006. 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.

## **Native American Refund**

The refund program was a result of legislation passed during the 2005 Legislative Session. Through the program, enrolled members of certain North Dakota tribes who purchase motor vehicle fuel from a station located on their reservation are offered an opportunity to receive a refund of the state motor fuel taxes. A special refund form was developed for individual Native Americans to complete and send to the state tax department for processing. Instructions for completing the form are included on the form. To educate affected individuals, the Tax Department produced Public Service Announcements that were distributed to each reservation, letters were sent to various businesses and tribal leaders, a brochure produced and distributed along with a poster for businesses to display, and meetings were held on the different reservations to explain the program to interested individuals. So far, the department issued 250 refunds to Native Americans for about \$79,000 in state motor fuel tax.

## **Conversion to NAICS**

The Tax Department recently implemented the North American Industry Classification System (NAICS) in place of the U.S. Standard Industrial Classification (SIC) system for use in developing statistics about North Dakota business activity. Because the SIC system was last updated in 1987, the new industry classification system provides more complete and useful information regarding new technologies and new industry segments that are more relevant to today's economy.

## **Department Reorganization**

As part of the Tax Department's mission to fairly and effectively administer the tax laws of North Dakota, the Tax Department has continued in its reorganization effort for certain tax types. The goal, as noted in the past, is to define a department that is more efficient and effective, ensures fulfillment of the department's Mission Statement, places major emphasis on good customer service, and improves utilization of space. The work on the integrated tax system project has confirmed the need for a reorganized Tax Department. By realigning key processes, functions and organizational units the department will be structured more effectively and improve the delivery of services to our customers.

# Powers and Duties of the Tax Commissioner

1. Shall perform all the duties with which he/she is charged.
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 office of management and budget 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

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## Mission Statement

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

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## 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.

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## 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, provides staff services and collects delinquent taxes. The Operations Division is responsible for processing tax returns, mail processing, central records, procurement, as well as leading the department's technology efforts. The Income, Sales and Special Taxes 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.

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## **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, human resources, and communication. 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 & Statistics Section**

The Research and Statistics Section is involved in 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 Statistics Section prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

The Office of State Tax Commissioner is responsible for preparing fiscal notes on proposals that affect various tax revenues. The responsibility



of those fiscal note responses rests with the Research and Statistics Section. In addition to responses which must be prepared during the Legislative Session, the department prepares fiscal note information for the Interim Committee on Finance and Taxation and responds to requests for fiscal information from individual legislators, businesses, and other government agencies.

### **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.

### **Communications Section**

The Communications area develops and maintains liaison with the public and the media providing information about the department's policies, programs, actions, services, and related tax matters. This section designs forms and publications for the Office of State Tax Commissioner and provides assistance with the management of the department's web site.

During the 2005-2007 biennium the Commissioner's Division included eight full-time positions which include the Tax Commissioner and Deputy Commissioner; a human resources officer, a research analyst, a public information specialist, an administrative assistant, and two office assistants.

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### **Operations Division**

The Operations Division includes six sections: Central Records, Data Entry, Information Services, Mail Center, Procurement, and Registration.

The Operations Division is responsible for procurement, project management and business process re-engineering, mail processing, central records and the electronic document management repository, front-end tax processing including taxpayer registration data capture and entry, and information technology management and development functions.

The Information Technology and Business Process Re-engineering staffs are responsible for leading the Tax Department's technology efforts through increased oversight and guidance. Responsibilities include the management, security, and efficient processing of the department's various tax applications. Information technology staff support all Tax Department personal computers, servers, scanners, and Local Area Network; evaluate all hardware, software, and programming requests; retain and maintain computer system documentation; design, test, and implement new systems; control access to federally provided data; perform business and systems analysis; and provide Business Process Re-engineering services. In addition, staff coordinate and manage electronic filing, scanning, automated data capture and 2D Bar code initiatives, and maintain the Tax Department's web site.

The Mail Center, Central Records, Procurement and Data Entry staffs provide support services to the department. The Mail Center receives and fills orders for tax forms and booklets as well as processes all incoming and outgoing mail. Central Records is responsible for the safe and secure storage and retrieval of tax returns and related documents. Central Records staff is also responsible for the management of the Electronic Document Management System (EDMS). The Procurement function of this division uses technology to enhance the procurement process. The data capture staff keys or verifies data from various tax returns and tax related documents.

In the 2005-2007 biennium, the Operations Division included 29 full-time positions. Those positions include the director, one administrative assistant, one purchasing agent, seven information technology analysts, three mail center staff, five data entry staff, five central records staff, four registration staff, one compliance officer, and one vacant position.

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## **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 2005-2007 biennium the Legal Division included five full-time positions: three attorneys, one collection officer, and one legal assistant.

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## **Fiscal Management Division**

The Fiscal Management Division of the Office of State Tax Commissioner consists of two sections: Accounting and Accounts Receivable.

### **Accounting Section**

Acting as the department's center for business transactions, the Accounting Section prepares and maintains the accounting records of total revenue received, expenditures for payroll and accounts payable, and tax refunds. This section maintains fixed asset inventory records and determines level of insurance coverage.

The Accounting section prepares the Office of State Tax Commissioner's executive budget request

and assists with biennial revenue estimates. This section also prepares the department's internal budget, analyzes and forecasts expenditures, and monitors and reports on budget performance. This section prepares reports and financial statements for management information and auditing purposes.

The Accounting section coordinates the annual audits by the State Auditor's office. All records maintained by the Department are subject to state audit.

### **Accounts Receivable Section**

The Accounts Receivable Section is responsible for collecting delinquent taxes on accounts referred by the division responsible for administering the tax. Established procedures used for the collection of delinquent taxes include telephone and written communication with taxpayers and the mailing of final notices requesting payment of taxes.

If necessary, this section may resort to civil or criminal legal action. It is the policy of the Accounts Receivable section to initiate legal action only in those cases in which 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 2005-2007 biennium, the Fiscal Management Division included 14 full-time positions. Those positions include the Chief Fiscal Officer, one accounting/budget specialist, one collections supervisor, five collection officers, four accountant technicians, one office assistant, and two vacancies.

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## **Income, Sales and Special Taxes Division**

The Income, Sales, and Special Taxes Division includes six sections: Corporate Income Tax, Individual Income Tax, Sales and Withholding Taxes, Motor Fuels and Special Taxes, Oil and Gas Taxes, and Field Audit.

These sections maximize taxpayer compliance with North Dakota tax laws, receive and process tax returns and perform audit reviews. They use various investigative means to identify non-filers, investigate reasons for not filing, and enforce filing requirements. Each section 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. All sections continue to provide speakers for tax clinics, tax preparation and other 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.

On average, 10,900 corporate income tax returns and 300 financial institution tax returns are processed each year. Of these, an average of 1,000 report refund claims. Sixty percent of the section's time involves processing and audit activities. Over 1,000 hours of taxpayer assistance were provided in this past biennium.

The section's primary emphasis involves the conducting of 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 for this state.

### **Individual Income Tax**

The Individual Income Tax section administers the state's income tax law for individuals, estates and trusts, partnerships, and small businesses, and provides taxpayer assistance. The section provides oversight for the computerized tax processing system that enables both electronic and paper filing of tax returns, while maintaining a secure and confidential records processing system which insures all returns are posed in a timely and accurate manner. In addition, the section provides newsletters, guidelines, rules and regulations, implements various compliance programs to identify non-filing and non-complying taxpayers, and performs audit examinations.

### **Sales & Withholding Taxes**

The principal function of the Sales and Withholding Section is to administer state and local sales taxes and income tax withholding.

Responsibilities of this section are to assure all sales tax returns and income tax withholding returns received are accurate and timely; conduct hearings and negotiate settlements; administer

exemption application and compliance programs; issue administrative tax rulings; provide newsletters, guidelines, rules and regulations for retailers and employers and review compliance with sales tax and income tax withholding regulations. This section implements various projects identifying non-filing or non-complying taxpayers through the following programs: field visitation, special events project; nexus or discovery project; voluntary disclosure program; Canadian customs review project; contractors' clearance review project; and letters of good standing program.

The compliance section also administers nearly all local sales and use taxes, local restaurant and lodging taxes, motor vehicle excise tax, cigarette and tobacco taxes, city lodging and restaurant taxes, music and composition tax, and processes Canadian refunds.

### **Motor Fuels and Special Taxes**

#### ***Motor Fuels***

The Motor Fuels and Special Taxes Section is responsible for administering, collecting and auditing motor vehicle fuel, special fuel, and aviation fuel taxes. This section also administers the motor vehicle fuel and aviation fuel tax refund programs.

North Dakota imposes a motor vehicle fuel tax on sales of gasoline and gasohol. Refunds are granted to consumers who used the fuel in nonlicensed equipment for agricultural, railroad, or industrial purposes.

Refunds are also granted to political subdivisions using the fuel for construction, reconstruction, and maintenance of roads and highways, and on fuel used in miscellaneous nonlicensed equipment.

The Motor Fuels and Special Taxes Section administers a special fuel tax on diesel fuels, heating fuels, kerosene, and propane, as well as aviation gasoline and jet fuel.

Other functions of the section include interpreting tax laws and issuing administrative rules; reviewing, issuing and revoking licenses and permits; and responding to taxpayer questions.

#### ***Estate Tax***

The Estate Tax Section supervises North Dakota's tax on property transferred upon death.

North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. The North Dakota law requires the attorney for the estate to give the Estate Tax Section a copy of the federal estate tax return, which is verified to assure that the federal credit is computed correctly. The section maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

### ***Alcoholic Beverages Tax***

The North Dakota Legislature authorized a transfer in responsibility for the alcoholic beverage control laws to the State Tax Commissioner on July 1, 2001. The Office of State Treasurer formerly held this responsibility.

As a result of this change in responsibilities, the Office of State Tax Commissioner is responsible for the enforcement of the alcoholic beverage control laws, and the administration of the wholesale alcoholic beverage taxes. The oversight for this section has been assigned to the fuels tax supervisor.

The business section issues licenses to wholesale businesses selling alcoholic beverages, registers brand product information, receives and processes tax returns, performs audits, publicizes tax rules and regulations, issues administrative rulings, and provides taxpayer assistance.

### ***Oil and Gas Taxes***

The Oil and Gas Taxes Section administers oil and gas gross production taxes and oil extraction tax. This section's responsibilities include the assurance that all tax returns received are timely and accurate; providing newsletters, guidelines, rules and regulations; and performing compliance reviews and audits of oil and gas companies conducting business in this state.

### ***Field Audit***

The primary focus is on customer service and the reduction of protested audits. The Field Audit section continues to improve existing audit systems, audit programs and approaches that apply to sales and use taxes, fuel taxes, cigarette and tobacco taxes, and wholesale alcohol beverage taxes. Audit survey results continue to reflect the fact that the Field Audit staff strive to provide quality taxpayer service and reflect professionalism and accuracy in their work product. In addition to

their audit workload, they continue to participate in special projects that assist in taxpayer education and compliance of the tax laws.

In the accomplishment of their audit functions, the Field Audit section continues to work cooperatively in the administration and audit of both state and city sales and use taxes, as represented by their efforts to audit these taxes jointly.

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## **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.

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 requires 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.

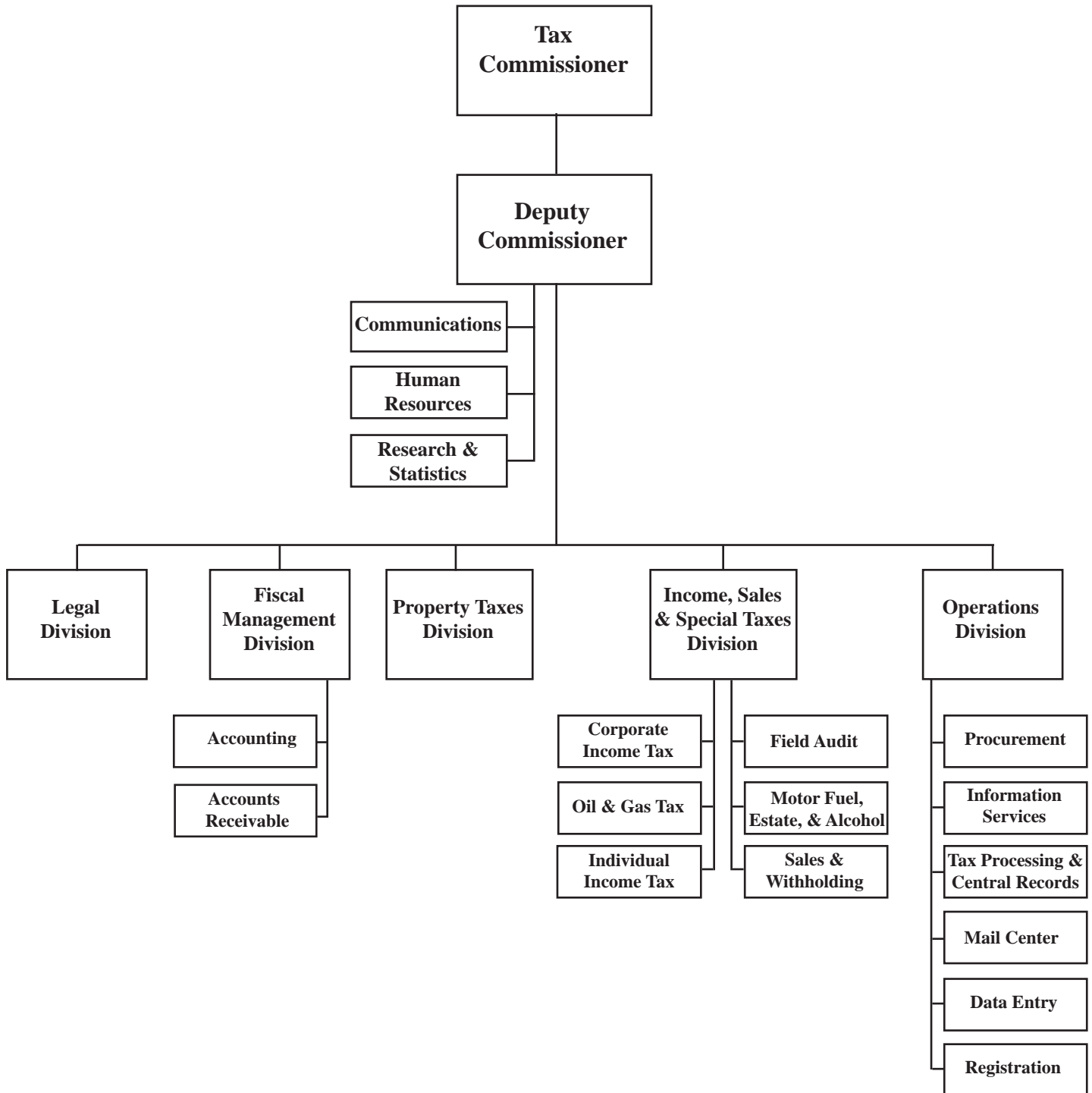
The Utilities Tax Section calculates and certifies the gross receipts tax on rural electric cooperatives to the counties. The counties collect the tax and distribute it to the political subdivisions where the cooperatives' lines are located.

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 2005-2007 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 2007



# Future Directions

Legislation enacted during the 2007 Legislative Assembly impacts the administration of some of North Dakota's major taxes during the 2007-09 biennium and in the years beyond. The following summarizes significant tax legislation enacted by the 2007 Legislature.

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## Property Tax Relief - Income Tax Credit

- The 2007 Legislature enacted a significant broad-based property tax relief program. The two-year program creates two income tax credits equal to ten percent of property taxes paid, with certain caps applying depending on the type of income tax return and the type of property on which tax was paid. Overall the income tax credits will return up to \$115 million to property tax payers, over the course of the 2007-09 biennium.

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## Income Taxes

- Individual income tax brackets for married joint filers are not "twice" the brackets for single filers. This causes the potential for some married individuals to pay more income tax than their single counterparts. Deemed the "marriage penalty," relief was enacted through a provision that creates an individual income tax credit equal to the actual amount of any "marriage penalty" the joint filers experienced, up to a maximum of \$300 per year. The use of the tax credit provision targets the marriage penalty relief to those joint filers who were penalized, rather than a bracket expansion which would grant relief to joint filers whether or not there was an actual marriage penalty caused by bracket disparities.
- A tax credit was created for North Dakota businesses that employ college interns. The credit is equal to ten percent of the compensation paid to the intern(s) provided the internship qualifies for academic credit

and is in a field related to the work performed for business by the intern.

- A tax credit was created for North Dakota businesses that employ extraordinary recruitment methods to recruit and hire employees for "hard-to-fill" positions. The credit is equal to five percent of the compensation paid to the qualifying new hires, provided the salary paid is at least 125% of the state's average full-time wage. The individuals hired may also qualify for a tax deduction for certain taxable components of signing bonuses, moving expense reimbursements, or other atypical benefits received.
- The existing research expense tax credit was expanded and modified. Prior law allowed only "C" corporations to claim this credit. This revision enabled all business types to claim the credit and expanded the eligibility provisions governing the base for computing the credit, and the transferability of the credit.
- An individual income tax deduction was created for contributions of up to \$5000 (\$10,000 for joint filers) to a qualified higher education saving plan (IRC Section 529) administered by the Bank of North Dakota.

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## Sales Taxes

- Coal used for heating purposes was exempted from sales and use tax beginning January 1, 2008. Also effective on that date was a reduction in the sales and use tax rate on natural gas, from two to one percent. Effective July 1 2009, sales of natural gas will be exempt from sales and use tax.

- The 2007 Legislature granted a sales tax exemption for bingo cards, and motor vehicle excise tax exemptions for ambulance purchases, vehicles purchased by qualified residents of Indian reservations, and vehicles purchased by disabled veterans.

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## Property Taxes

- Significant, broad-based property tax relief was granted through the creation of two income tax credits (see first item in this section)
- The 2007 Legislature broadened the property tax exemption provisions for disabled veterans.
- The Homestead Credit program for the elderly and disabled homeowners was modified and expanded.
- Counties were required to use soil type and soil classification data to determine agricultural land valuation, with penalties for non-compliance in place for assessment years 2010 and beyond.

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## Oil Taxes

- The 2007 Legislature authorized a reduced tax rate for oil produced in the newly developed Bakken Formation. The reduced rate is effective for the first 75,000 barrels produced from a qualifying well.
- The 2007 Legislature modified the distribution of Gross Production Tax revenues providing more revenues to oil producing counties.
- Legislation was enacted enabling the Governor, in consultation with the Tax Commissioner, to enter into an agreement with the Three Affiliated Tribes relating to the taxation of oil and gas produced within the boundaries of the Fort Berthold Reservation.



**Comparative Statement of Collections  
for the 2003-05 Biennium and the 2005-07 Biennium**

Tax Type	2003-05 Biennium	2005-07 Biennium	Increase or Decrease	
			Dollars	Percent
Sales and Use Taxes	\$780,494,981	\$915,173,613	\$134,678,632	17.26%
Individual Income Tax	455,465,631	593,055,235	137,589,604	30.21%
Corporation Income Tax	102,926,972	231,745,335	128,818,363	125.16%
Oil and Gas Taxes	192,770,836	352,116,795	159,345,959	82.66%
Coal Taxes	78,279,801	80,699,265	2,419,464	3.09%
Motor Fuels Taxes	242,173,864	274,094,728	31,920,865	13.18%
All Other Taxes and Fees	260,363,458	306,527,888	46,164,429	17.73%
<b>Total Net Collections</b>	<b>\$2,112,475,543</b>	<b>\$2,753,412,860</b>	<b>\$640,937,317</b>	<b>30.34%</b>

**Sales and Use Taxes:** The majority of the growth in this category is due to overall increases in taxable sales and purchases throughout many industry sectors, which is the result of a strong and increasingly diverse North Dakota economy.

**Individual and Corporation Income Tax:** The growth in these categories reflect the strength of the overall economy, including employment increases and wage and salary growth. A portion of the growth in corporation income tax revenues is due to strong audit collections and a profitable and expanding energy sector. The agricultural sector also showed gains as commodity prices rebounded.

**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. Additionally, technological advancements are allowing oil to be recovered from previously inaccessible reservoirs.

**Motor Fuels Taxes:** The growth in this category is due to an increase in the tax rate from \$.21 to \$.23 per gallon effective July 1, 2005.

## Statement of Collections 2005 - 07 Biennium

Description	Fiscal Year 2006			Fiscal Year 2007			2005-07 Biennium Net Total
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections	
Sales & Use Tax	\$434,510,268.21	\$5,603,862.32	\$428,906,405.89	\$491,163,814.64	\$5,177,700.98	\$485,986,113.66	\$914,892,519.55
Motor Vehicle Excise Tax (1)	125,756.67	170.28	125,586.39	155,937.72	430.18	155,507.54	281,093.93
City Occupancy Tax	1,178,716.11	5,167.96	1,173,548.15	1,360,606.04	21,328.32	1,339,277.72	2,512,825.87
City Sales Tax	87,563,543.97		87,563,543.97	92,143,032.23		92,143,032.23	179,706,576.20
City Restaurant and Lodging Tax	2,916,086.77	28,929.75	2,887,157.02	3,511,965.65		3,511,965.65	6,399,122.67
City Motor Vehicle Rental Tax	13,326.69		13,326.69	98,422.01		98,422.01	111,748.70
Individual Income Tax	313,621,741.35	39,000,000.00 *	274,621,741.35	351,524,264.00	43,000,000.00 *	308,524,264.00	583,146,005.35
Partnerships - Individual	.00		.00	5,750,870.04		5,750,870.04	5,750,870.04
S-Corp - Individual	.00		.00	4,158,359.54		4,158,359.54	4,158,359.54
Corporate Income Tax	121,289,586.57	9,500,000.00 *	111,789,586.57	135,129,943.25	18,000,000.00 *	117,129,943.25	228,919,529.82
S-Corp - Corporate	.00		.00	2,825,805.47		2,825,805.47	2,825,805.47
Financial Institutions Tax	11,978,850.39	1,000,659.00	10,978,191.39	16,423,934.98	269,158.98	16,154,776.00	27,132,967.39
Cigarette Tax (Cities)	1,407,166.39		1,407,166.39	1,449,424.38		1,449,424.38	2,856,590.77
Cigarette Tax (Tribe)	64,403.25		64,403.25	63,346.40		63,346.40	127,749.65
Cigarette Tax (GF)	19,278,591.51		19,278,591.51	19,832,558.22		19,832,558.22	39,111,149.73
Tobacco Tax	2,708,670.78	1,181.71	2,707,489.07	2,864,731.38		2,864,731.38	5,572,220.45
Oil & Gas Gross Production Tax	104,378,689.40		104,378,689.40	118,782,343.15		118,782,343.15	223,161,032.55
Oil Extraction Tax	65,122,617.00	3,354,683.09	61,767,933.91	69,409,618.21	2,221,789.39	67,187,828.82	128,955,762.73
Telecommunications Tax	10,097,162.65	23,884.50	10,073,278.15	9,883,691.00	35.40	9,883,655.60	19,956,933.75
Wholesale Liquor/beer Tax	6,366,539.19	250.00	6,366,289.19	6,575,164.06	96,884.26	6,478,279.80	12,844,568.99
Estate Tax	1,086,192.21		1,086,192.21	21,800.97		21,800.97	1,107,993.18
Miscellaneous Remittances	29,095.28	18,636.31	10,458.97	13,183.40	9,087.00	4,096.40	14,555.37
Coal Severance Tax	12,014,617.94		12,014,617.94	11,969,504.38		11,969,504.38	23,984,122.32
Coal Conversion Tax	27,784,633.03		27,784,633.03	28,930,509.66		28,930,509.66	56,715,142.69
Transmission Line Tax	415,500.75		415,500.75	415,478.25		415,478.25	830,979.00
Music and Composition Tax	46,748.69		46,748.69	170,518.00		170,518.00	217,266.69
Sales & Use Tax Cash Bonds	56,900.00	25,082.06	31,817.94	143,888.13	24,397.95	119,490.18	151,308.12
Fuel Dealers & Inspection Fees	880.00		880.00	280.00		280.00	1,160.00
Motor Vehicle Fuel Tax	81,622,299.21	1,970,000.00 *	79,652,299.21	82,349,119.01	1,196,000.00 *	81,153,119.01	160,805,418.22
Special Fuel Tax	54,614,174.84	142,000.00 *	54,472,174.84	58,938,635.33	121,500.00 *	58,817,135.33	113,289,310.17
Motor Fuel Tax - Cash Bond	3,000.00	3,500.00	(500.00)	5,500.00	3,500.00	2,000.00	1,500.00
Nongame Wildlife Fund	17,522.14		17,522.14	18,778.80		18,778.80	36,300.94
Centennial Tree Trust Fund	16,869.93		16,869.93	16,869.93	129.00	16,740.93	33,610.86
Organ Transplant Support Fund	12,654.77		12,654.77	12,672.92		12,672.92	25,327.69
Airline Tax	49,726.67		49,726.67	243,769.89		243,769.89	293,496.56
Provider Assessment	3,781,260.00		3,781,260.00	3,700,675.00		3,700,675.00	7,481,935.00
<b>TOTAL COLLECTIONS</b>	<b>\$1,364,173,792.36</b>	<b>\$60,678,006.98</b>	<b>\$1,303,495,785.38</b>	<b>\$1,520,059,016.04</b>	<b>\$70,141,941.46</b>	<b>\$1,449,917,074.58</b>	<b>\$2,753,412,859.96</b>

\* 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 \$66,533,249.78 in FY06 and \$69,840,022.78 in FY07.

## Net Collections For Fiscal Years Ended June 30, 1998 to 2007

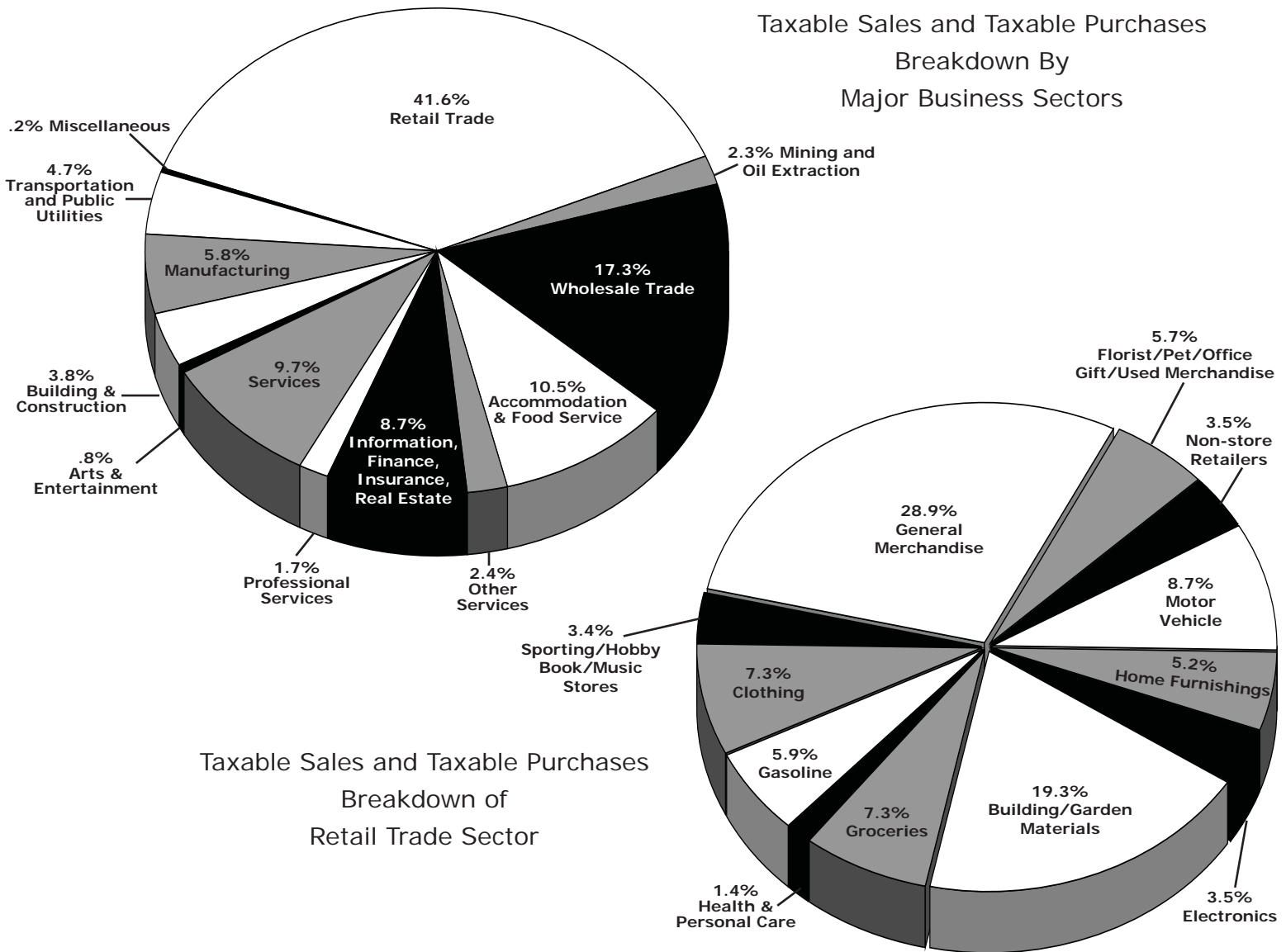
TAX TYPE	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Sales and Use Taxes (1)	\$308,772,887 (2)	\$331,175,284 (2)	\$326,384,604 (2)	\$340,214,298 (2)	\$335,727,423 (2)	\$360,908,220 (2)	\$368,703,306 (2)	\$411,791,675 (2)	\$429,031,992	\$486,141,621
Individual Income Tax	177,904,251	181,389,034	198,287,830	213,442,150	198,922,525	200,528,205	214,145,899	241,319,731	274,621,741	318,433,494
Corporation Income Tax	65,543,025	57,877,194	47,528,001	51,606,853	41,600,758	46,027,577	40,257,083	62,669,889	111,789,587	119,955,749
Oil Extraction Tax	15,328,212	12,074,588	21,023,977	24,793,997	17,068,846	22,618,069	25,638,914	45,566,628	61,767,934	67,187,829
Gross Production Tax	29,521,309	22,705,995	38,041,008	46,029,027	36,515,072	43,477,533	47,519,075	74,046,219	104,378,689	118,782,343
Coal Taxes (3)	37,257,693	38,274,528	38,959,421	39,539,107	38,200,783	39,448,602	40,556,785	37,723,016	39,799,251	40,900,014
Motor Fuel Taxes (4)	105,131,399	103,050,448	111,937,585	112,685,871	111,635,118	115,252,746	119,934,491	122,239,373	134,124,474	139,970,254
All Other Taxes & Fees (5)	85,968,455	106,892,031	108,699,368	117,682,317	121,457,316	131,232,956	124,855,264	135,508,194	147,982,117	158,545,771
<b>TOTAL NET COLLECTIONS</b>	<b>\$734,490,314</b>	<b>\$799,271,832</b>	<b>\$890,861,795</b>	<b>\$945,993,620</b>	<b>\$901,127,841</b>	<b>\$959,493,908</b>	<b>\$981,610,817</b>	<b>\$1,130,864,726</b>	<b>\$1,303,495,785</b>	<b>\$1,449,917,075</b>

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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 \$54,421,777 in FY-98, \$51,998,566 in FY-99, \$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, and \$69,840,023 in FY-07.
- (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, drug tax, city restaurant and lodging, miscellaneous remittances, provider assessment, telecommunications tax, contractor's highway 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 2005-07 Biennium



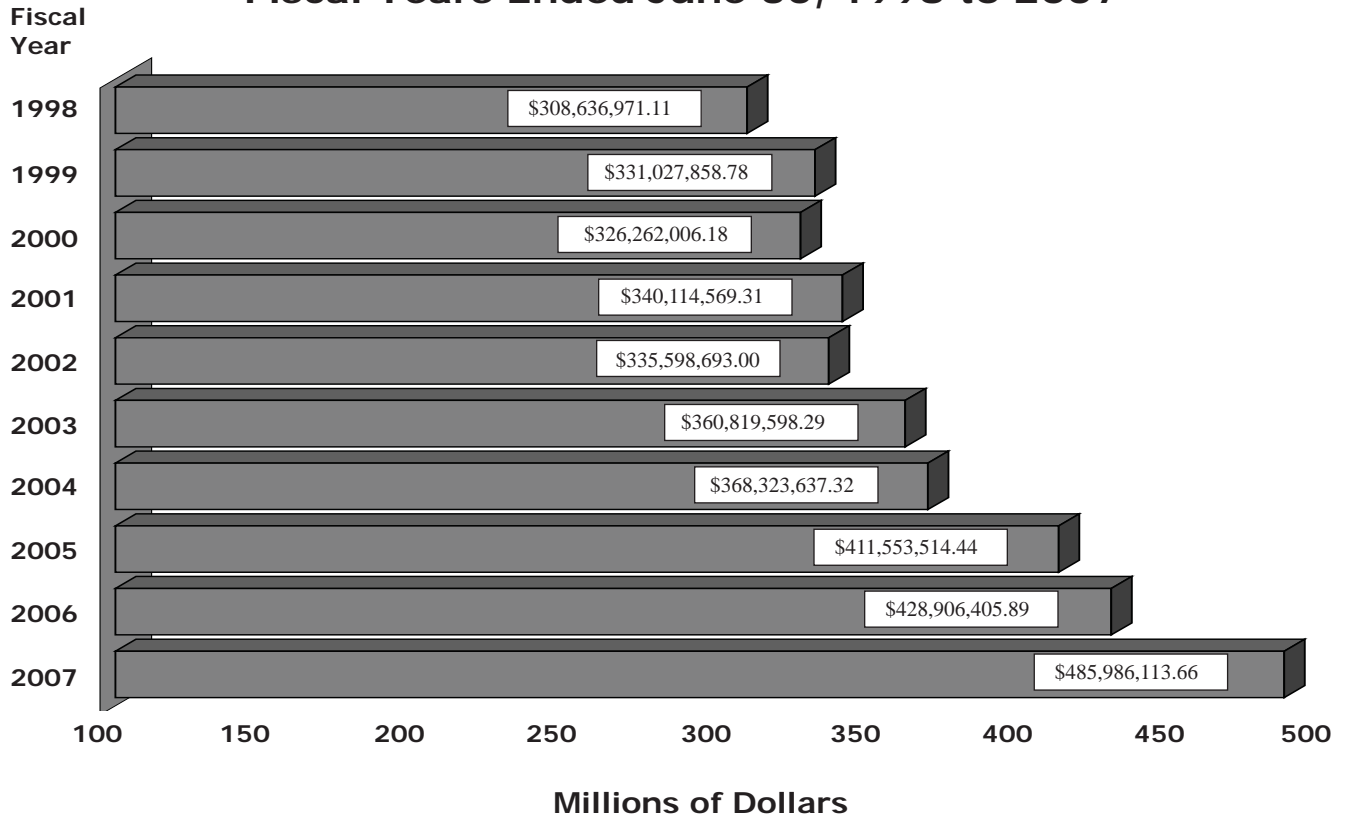
SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports

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, 1998 to 2007



### Distribution of Sales Tax Collections

	<u>Total Revenues</u>	<u>State General Fund</u>	<u>State Aid Distribution Fund</u>
Fiscal Year 1998	308,636,871.11	271,606,220.79	37,030,650.32
Fiscal Year 1999	331,027,858.78	297,895,606.46	33,132,252.32
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

## **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%.
- The rate on retail sale of natural gas is 2%.

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.

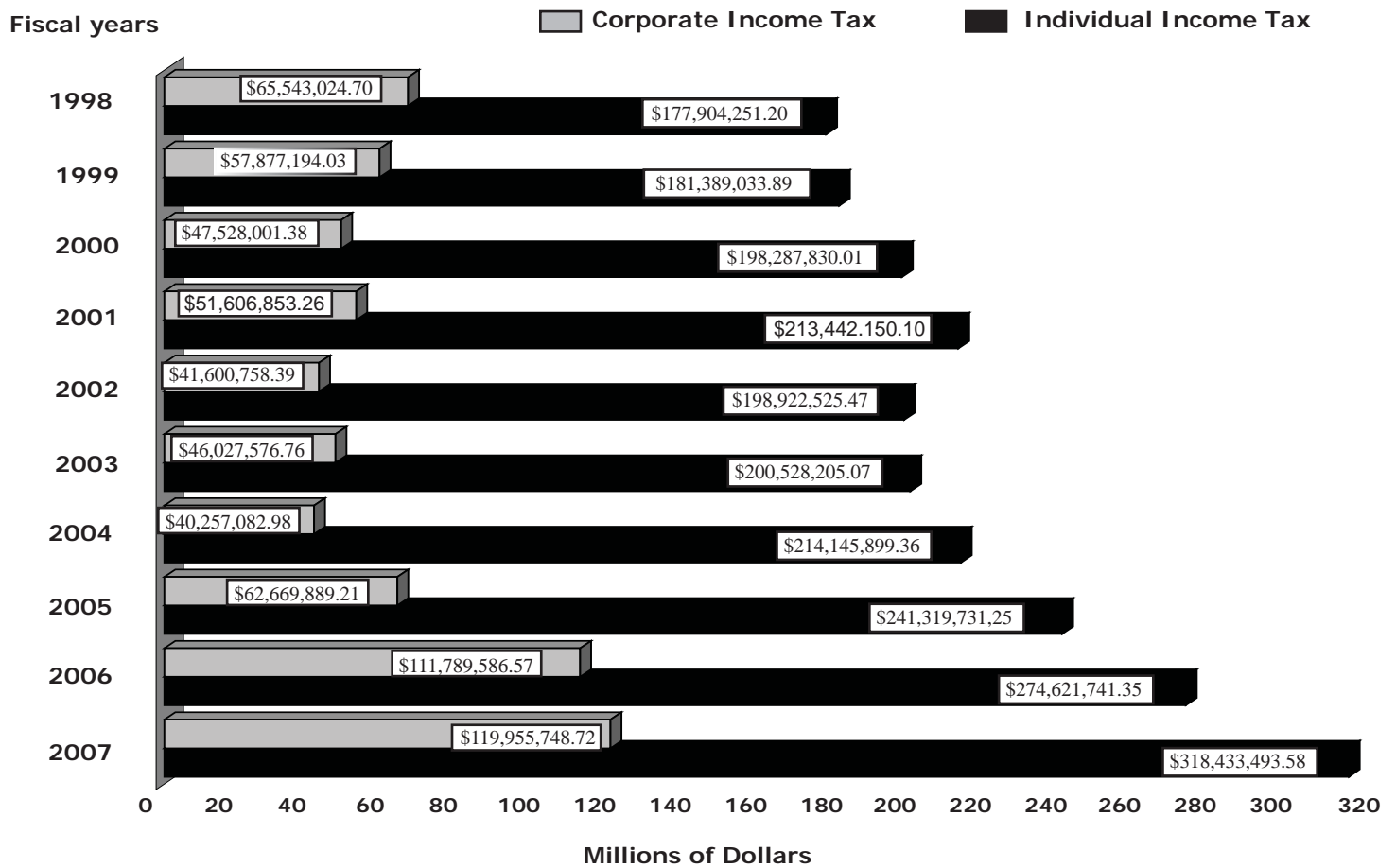
Effective May 1, 1999, the sales tax rate on used farm equipment and farm repair parts was decreased from 3% to 1.5%.

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.

## Net Individual and Corporate Income Tax Collections During Fiscal Years Ended June 30, 1998 to 2007



### Individual Income Tax

The individual income tax rates were 14% of adjusted federal income tax liability for tax years 1996 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.

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

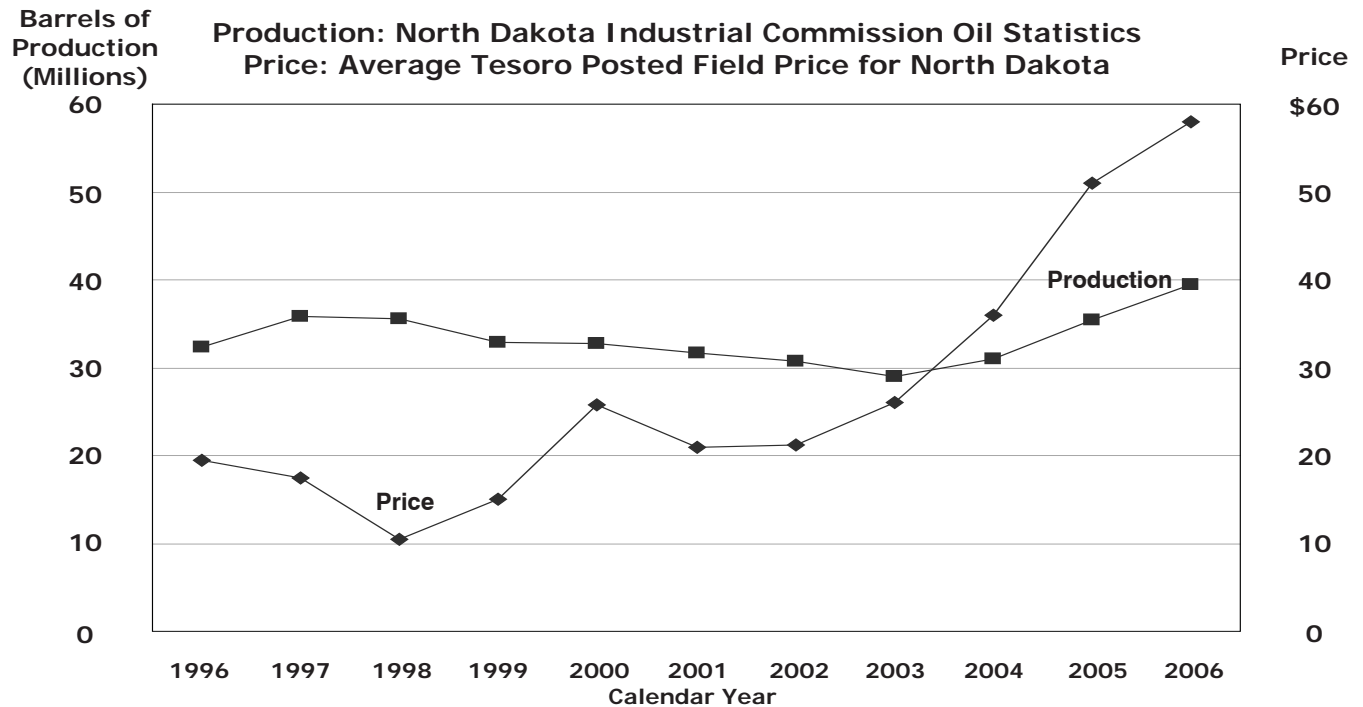
Individual income tax revenues are deposited in the State General Fund.

### Corporate Income Tax

Recent record increases in corporation income tax collections are due to a very strong economy, high oil prices, and record audit collections.

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 1996 to 2006



### Oil and Gas Gross Production and Oil Extraction Tax Revenues 2005-07 Biennium

		<u>Net Revenue</u>	<u>State General Fund Share of Net Revenue</u>
Oil & Gas Gross Production Tax	Fiscal Year 2006	\$104,378,689.40	\$76,436,514.25
Oil & Gas Gross Production Tax	Fiscal Year 2007	118,782,343.15	86,988,293.42
Oil Extraction Tax	Fiscal Year 2006	61,767,933.91	37,060,760.35
Oil Extraction Tax	Fiscal Year 2007	67,187,828.82	<u>40,312,697.29</u>
Total State General Fund Share			\$240,798,265.31
Statutory Cap			<u>71,000,000.00</u>
Transfer to Permanent Oil Trust Fund			\$169,798,265.31



## 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 2006, gas production was taxed at the rate of 12.15¢ per 1,000 cubic feet (MCF). In fiscal year 2007, the tax rate was 16.40¢ 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 75% to the county and 25% to the State General Fund; the second \$1 million, 50% to the county, 50% to the State General Fund; amounts over \$2 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 \$3.9 million; population between 3,000 and 6,000, no more than \$4.1 million; population of 6,000 and greater, no more than 4.6 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 2005-07 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 2005-07 Biennium

### Kilowatt Hours Produced During the 2005-07 Biennium

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>
Total Kwh Produced	30,083,494,773	29,539,998,578

### Distribution of Coal Conversion Tax Revenue - 2005-07 Biennium

Distribution <u>Fund</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>
Counties	\$3,742,585.89	\$3,754,693.26
State General Fund	<u>24,042,047.14</u>	<u>25,175,816.40</u>
Total Revenue Collected	\$27,784,633.03	\$28,930,509.66

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%. 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 2005-07 Biennium

### Tonnages Severed During the 2005-07 Biennium

Taxable Tons Severed:

<u>County</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>
Bowman	100,823	100,199
McLean	8,248,807	7,657,194
Mercer	16,480,743	16,870,881
Oliver	5,958,117	5,753,454
Williams	4,954	3,636
 Total Taxable Tons Severed	 30,793,444	 30,385,364

### Distribution of Coal Severance Tax Revenue - 2005-07 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>
Counties (70%)	\$7,984,398.00	\$7,954,417.46
Land Board (30%)	3,421,884.86	3,409,036.06
Lignite Research (add'l. 2¢ per ton)	<u>608,335.08</u>	<u>606,050.86</u>
 Total Revenue Collected	 \$12,014,617.94	 \$11,969,504.38

## 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 that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of \$225.00 per mile.

	<u>2003-05 Biennium</u>		<u>2005-07 Biennium</u>	
	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Transmission Line Tax	\$416,081.25	\$415,500.75	\$415,500.75	\$415,478.25

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Rural Electric Cooperative	\$5,480,163.44	\$5,737,510.39	\$6,145,700.27	6,437,891.46

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Telecommunications Tax Assessed	\$9,845,267.56	\$9,710,073.74	\$10,124,913.49	\$9,753,075.91

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

### 2005-07 Biennium

	<u>FY 2006</u>	<u>FY-2007</u>
Total Net Collections	\$ 10,978,191.39	\$ 16,154,776.00
State General Fund	\$ 4,172,320.39	\$ 5,530,042.00
Financial Institution Distribution Fund	\$ 6,805,871.00	\$ 10,624,734.00

## Cigarette and Tobacco Products Net Tax Collections

	<u>2003-05 Biennium</u>		<u>2005-07 Biennium</u>	
	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
3¢ per package cigarette tax distributed to cities on population basis	\$1,284,013.09	\$1,260,002.76	\$1,407,166.39	\$1,449,424.38
41¢ per package cigarette tax distributed to State General Fund	\$17,449,350.08	\$17,231,928.65	\$19,254,467.94	\$19,808,718.15
28% of the wholesale price of tobacco products distributed to State General Fund	\$2,297,900.83	\$2,499,633.89	\$2,707,489.07	\$2,864,731.38

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>2003-05 Biennium</u>		<u>2005-07 Biennium</u>	
	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Amount distributed to the Tribe	\$75,178.94	\$75,690.72	\$64,403.25	\$63,346.40
Amount distributed to the State General Fund	\$28,159.82	\$28,351.52	\$24,123.57	\$23,840.07

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Airlines	\$220,590.95	\$214,852.49	\$209,710.65	\$215,953.98

\* 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 2005-2007 Biennium**

<b>Aviation Fuel, Motor Vehicle Fuel, &amp; Special Fuel Collections - Tax, Penalty, Interest, &amp; Fees</b>	<b>FY-2006 Dollars</b>	<b>FY-2007 Dollars</b>
<b>Aviation Fuel:</b>		
Aviation Gasoline - at \$.08 Per Gallon	\$186,772	\$144,824
Jet Fuel - at \$.08 Per Gallon	1,037,083	1,025,766
Penalty and Interest	120	85
<i>Total Collections</i>	<u>\$1,223,975</u>	<u>\$1,170,675</u>
Total Refunded	93,715	24,847
<i>Net Collections</i>	<u>\$1,130,260</u>	<u>\$1,145,828</u>
 <b>Motor Vehicle Fuel:</b>		
Gasoline - at \$.23 Per Gallon	\$43,233,690	51,512,618
Gasohol - at \$.23 Per Gallon	36,805,418	29,207,056
Penalty and Interest	14,353	25,524
<i>Total Collections</i>	<u>\$80,053,461</u>	<u>\$80,745,198</u>
Total Refunded	1,767,401	1,608,678
<i>Net Collections</i>	<u>\$78,286,060</u>	<u>\$79,136,520</u>
 <b>Special Fuel:</b>		
Diesel-Heating-Kerosene-Propane - at \$.23 Per Gallon	\$42,291,594	\$45,059,912
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	12,181,592	13,678,416
Penalty and Interest	19,837	23,853
<i>Total Collections</i>	<u>\$54,493,023</u>	<u>\$58,762,181</u>
Total Refunded	79,378	165,894
<i>Net Collections</i>	<u>\$54,413,645</u>	<u>\$58,596,287</u>
 <b>Consolidated Laboratories Inspection Fees:</b>		
From Motor Vehicle Fuel	\$90,417	90,853
From Special Fuels (except propane)	102,479	106,649
<i>Total Collections</i>	<u>\$192,896</u>	<u>\$197,502</u>
 <b>License Fees:</b>		
Aviation Fuel Tax Licenses	\$40.00	\$100.00
Motor Vehicle Fuel Tax Licenses	320.00	280.00
Special Fuels (Diesel-Heating-Kerosene) Tax Licenses	420.00	440.00
Liquefied Petroleum Gas Tax Licenses	100.00	280.00
<i>Total Collections</i>	<u>\$880</u>	<u>\$1,100</u>
 <b>Cash Bonds:</b>	<u>\$3,000.00</u>	<u>\$5,500.00</u>
 <b>Tribal Tax Collections:</b>		
Gasoline/Gasohol - at \$.23 Per Gallon	\$254,446	\$385,125
Diesel Fuel - at \$.23 Per Gallon	18,673	26,816
<i>Total Collections</i>	<u>273,119</u>	<u>\$411,941</u>
 <i>Grand Total of Collections</i>	<u>\$135,967,235</u>	<u>\$140,882,156</u>
<i>Grand Total of Refunds</i>	<u>1,940,494</u>	<u>1,799,419</u>
<i>Grand Total of Net Collections</i>	<u>\$134,026,741</u>	<u>\$139,082,737</u>



## Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Taxable Gallons 2005-2007 Biennium

<b>Aviation Fuel, Motor Vehicle Fuel, &amp; Special Fuel Taxable Gallons</b>	<b>FY-2006 Gallons</b>	<b>FY-2007 Gallons</b>
	<u>                    </u>	<u>                    </u>
<b>Aviation Fuel:</b>		
Aviation Gasoline - at \$.08 Per Gallon	2,229,947	1,777,240
Jet Fuel - at \$.08 Per Gallon	<u>12,641,574</u>	<u>12,935,952</u>
<i>Total Taxable Gallons</i>	14,871,521	14,713,192
Gallons on Which Tax \$.08 Per Gallon Tax was Refunded and 4% tax assessed	4,804,188	2,319,450
<i>Net \$.08 Taxable Gallons</i>	<u><u>10,067,333</u></u>	<u><u>12,393,742</u></u>
 <b>Motor Vehicle Fuel:</b>		
Gasoline - at \$.23 Per Gallon	185,887,593	231,313,040
Gasohol - at \$.23 Per Gallon	<u>164,892,164</u>	<u>126,745,054</u>
<i>Total Taxable Gallons</i>	350,779,757	358,058,094
Gallons on Which Tax was Refunded	10,510,356	9,514,462
<i>Net Taxable Gallons</i>	<u><u>340,269,401</u></u>	<u><u>348,543,632</u></u>
 <b>Special Fuel:</b>		
Diesel-Heating-Kerosene-Propane - at \$.23 Per Gallon	180,707,701	196,375,132
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	<u>324,909,180</u>	<u>342,789,117</u>
<i>Total Taxable Gallons</i>	<u><u>505,616,881</u></u>	<u><u>539,164,249</u></u>
 <b>Grand Total of Taxable Gallons</b>		
	871,268,159	911,935,535
<b>Grand Total of Gallons on Which Tax was Refunded</b>	<u>10,510,356</u>	<u>9,514,462</u>
<b>Grand Total of Taxable Gallons</b>	<u><u>860,757,803</u></u>	<u><u>902,421,073</u></u>

**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.

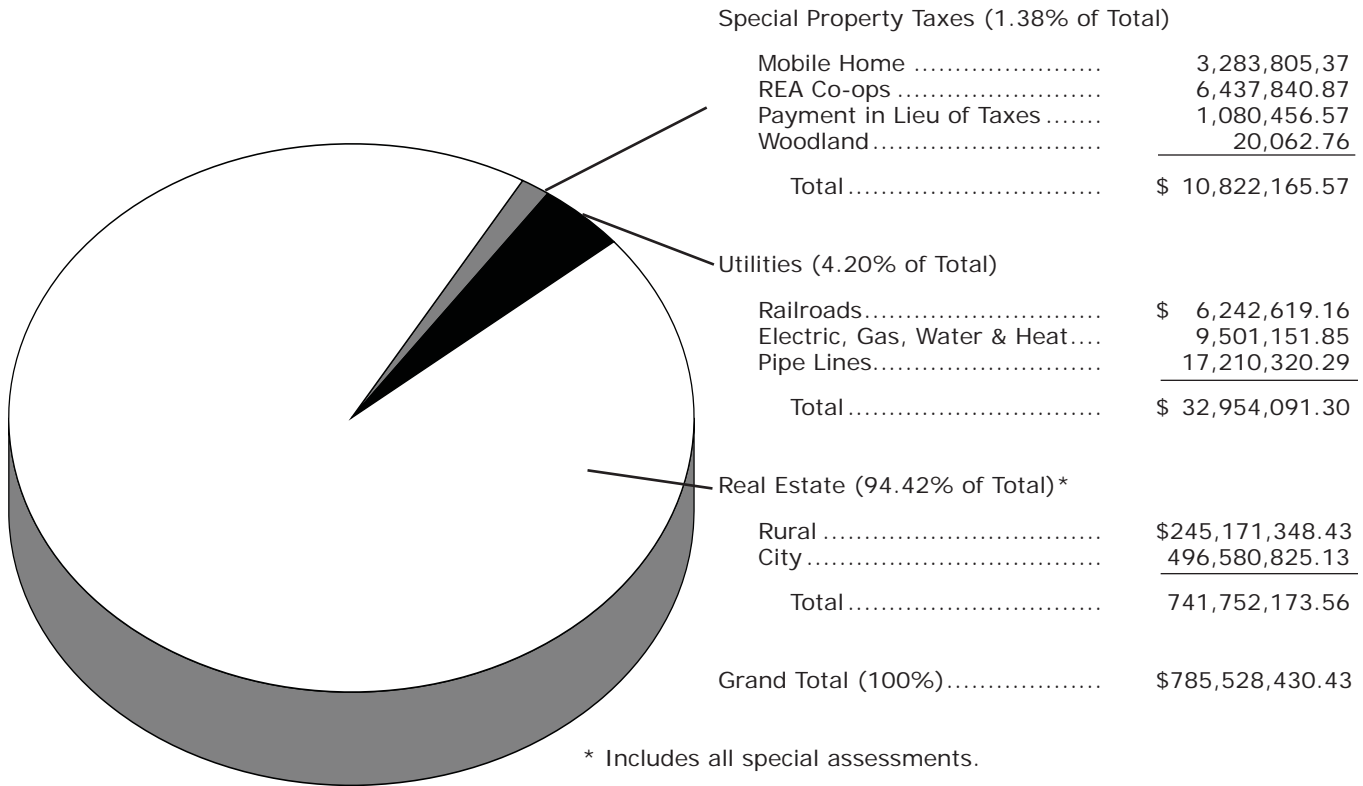
**Motor Vehicle Fuel:** A per gallon tax is levied on all motor vehicle fuel (gasoline and gasohol). For this biennium the tax was \$.23 per gallon. The tax is refundable when the fuel is used in nonlicensed equipment for an agricultural, industrial or railroad purpose. Refunds to industrial consumers 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 Agriculturally 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 Income and Sales and Special Taxes 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 and Spirit Lake 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 2006 - Payable in 2007)



Source: 2006 Property Tax Statistical Report compiled by the Office of State Tax Commissioner.

### Property Tax

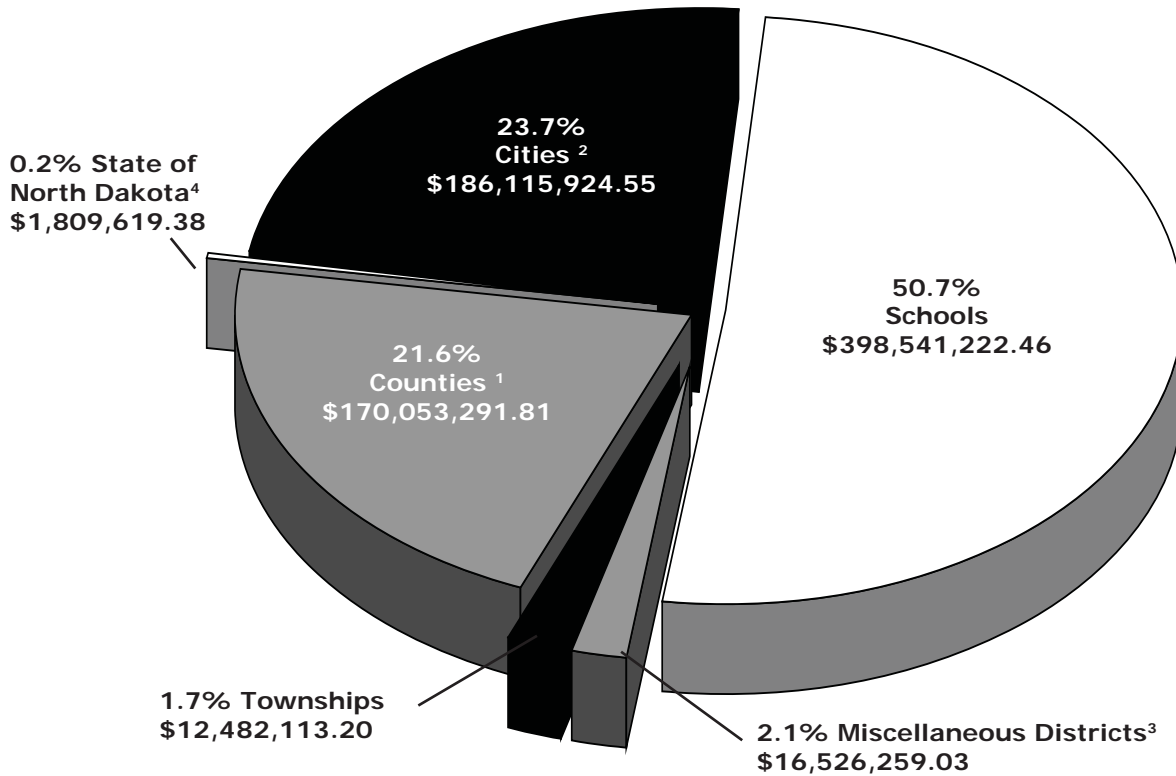
Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed locally. The property tax is collected and distributed by the county to the 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, 2011, 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, 2011, 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 2006 - Payable in 2007)



**Grand Total - \$785,528,430.43**

<sup>1</sup> Including County Park Districts, County Libraries, County Airports, Unorganized Townships, Water Resource and Joint Water Resource Districts.

<sup>2</sup> Including City Park Districts, City Special Assessments, and tax increments.

<sup>3</sup> 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.

<sup>4</sup> Constitutional one mill levy for the Medical Center at the University of North Dakota.

Source: 2006 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>
1990	1,601	149,705	7,188	2,336,992
1991	1,582	151,600	7,029	2,303,437
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

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, and to \$17,500 in 2007.

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

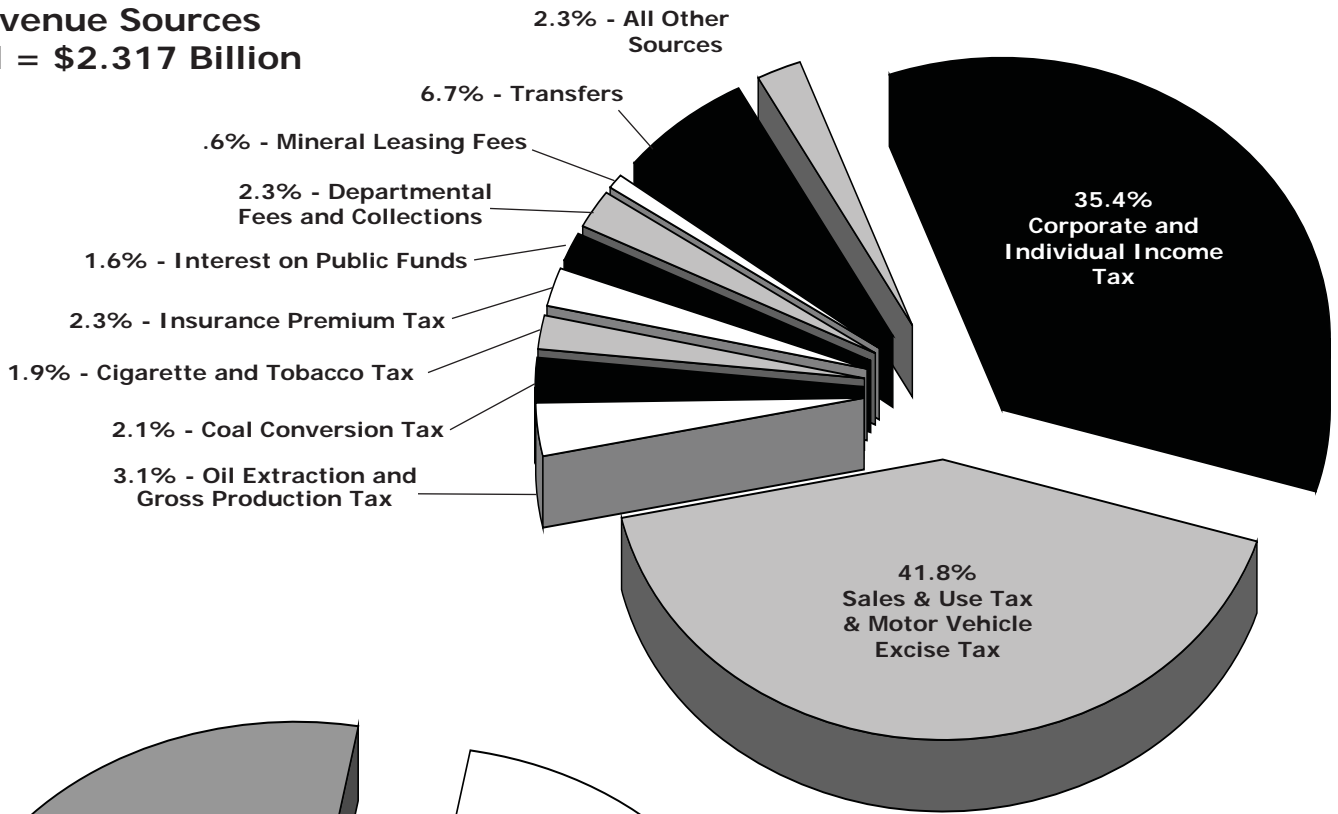
### For Taxes Levied in 2005 and 2006 (Payable in 2006 and 2007)

<u>Income of</u>	<u>Reduction</u>	<u>Maximum Reduction</u>
\$ 0 - \$ 8,500	100%	\$3,038
\$ 8,501 - \$10,000	80%	2,430
\$10,001 - \$11,500	60%	1,823
\$11,501 - \$13,000	40%	1,215
\$13,001 - \$14,500	20%	608

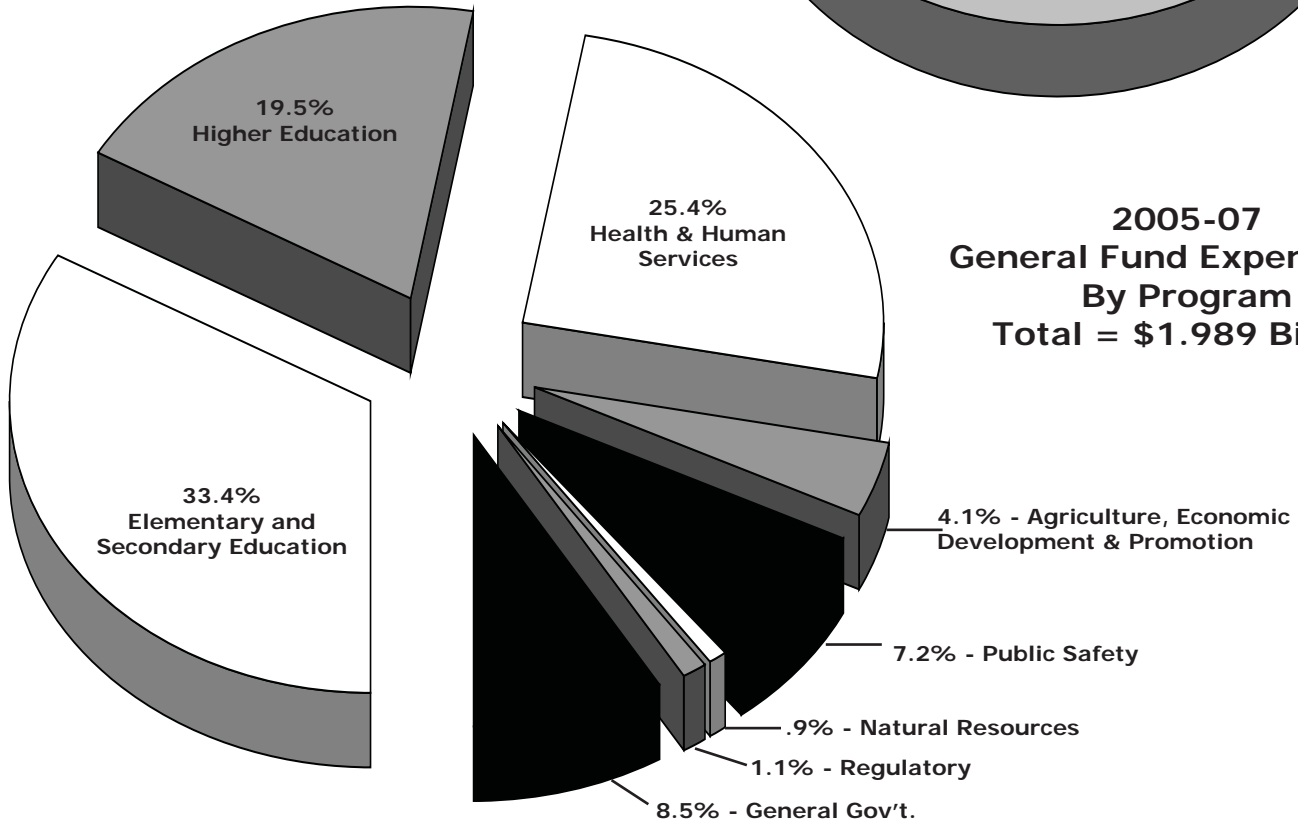
Eligible renters receive a refund of a portion of rent deemed to represent property taxes when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, light and furniture must be excluded when determining the annual rent payment for the purposes of renter's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

## State General Fund Revenues and Expenditures in the 2005-07 Biennium

### 2005-07 General Fund Revenue Sources Total = \$2.317 Billion



### 2005-07 General Fund Expenditures By Program Total = \$1.989 Billion



SOURCE: Office of Management and Budget, October 2007.

## Statement of Expenditures 2005 - 07 Biennium

Description	Commissioners Division	Legal Division	Fiscal Mgmt. Division	Sales & Special Taxes Division	Income & Oil Taxes Division	Property & Utility Taxes Division	Operations Division	Integrated Tax System Direct Costs	Integrated Tax System Indirect Costs	TOTAL
Salaries and Wages										
FY 06	\$480,432.93	\$276,747.38	\$708,281.66	\$1,945,355.17	\$1,636,603.48	\$249,988.12	\$1,078,696.38			\$6,376,105.12
FY 07	506,139.69	281,636.73	739,766.85	1,883,765.68	1,756,514.54	264,942.33	1,141,953.13			6,574,718.95
Information Services										
FY 06	8,430.96	1,716.51	8,277.08	20,163.20	13,684.87	1,908.58	682,040.67		137.79	736,359.66
FY 07	8,126.38	1,552.53	7,685.20	20,014.59	13,336.76	1,866.24	710,996.82		154.30	763,732.82
Operating Expenses										
FY 06	55,833.56	43,296.75	70,028.15	341,687.14	354,033.10	9,766.11	306,374.20		29,523.88	1,210,542.89
FY 07	68,454.27	92,046.70	89,826.85	255,145.13	390,655.95	6,591.18	552,478.54		3,237.48	1,458,436.10
Equipment										
FY 06										
FY 07							15,825.00			15,825.00
TREND - Integrated TS										
FY 06								6,884,577.70		6,884,577.70
FY 07								4,766,125.98		4,766,125.98
TOTAL										
FY 06	544,697.45	321,760.64	786,586.89	2,307,205.51	2,004,321.45	261,662.81	2,067,111.25	6,884,577.70	29,661.67	15,207,585.37
FY 07	582,720.34	375,235.96	837,278.90	2,158,925.40	2,160,507.25	273,399.75	2,421,253.49	4,766,125.98	3,391.78	13,578,838.85
<b>TOTAL 06-07</b>	<b>\$1,127,417.79</b>	<b>\$696,996.60</b>	<b>\$1,623,865.79</b>	<b>\$4,466,130.91</b>	<b>\$4,164,828.70</b>	<b>\$535,062.56</b>	<b>\$4,488,364.74</b>	<b>\$11,650,703.68</b>	<b>\$33,053.45</b>	<b>\$28,786,424.22</b>

# 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](http://www.nd.gov/tax)

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## Commissioner's Division

### 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

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## Income, Sales, and Special Taxes Division

### 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
- Cigarette and Tobacco Tax

### Supplemental Tax Guide for U.S. Armed Forces

### Tax Law and Administrative Rules

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

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## Property Tax Division

### 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
- Telecomm. Carrier Tax

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

### Write:

**Office of State Tax Commissioner  
600 E. Boulevard Ave., Dept. 127  
Bismarck, ND 58505-0599**

### E-mail:

**[taxinfo@nd.gov](mailto:taxinfo@nd.gov)**

### Call:

**701.328.2770**

**Office of State Tax Commissioner**  
600 E Boulevard Avenue, Dept. 127  
Bismarck ND 58505-0599

**E-mail: [taxinfo@nd.gov](mailto:taxinfo@nd.gov)**  
**[www.nd.gov/tax](http://www.nd.gov/tax)**  
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**Phone: 701.328.2770**  
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