

# 52ND BIENNIAL REPORT

FOR THE BIENNIAL PERIOD OF  
JULY 1, 2013 THROUGH JUNE 30, 2015



**ND Tax**

NORTH DAKOTA

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TAX COMMISSIONER

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## EXECUTIVE SUMMARY

The Office of State Tax Commissioner provides prompt, accurate and courteous service to taxpayers while promoting compliance with the tax laws of North Dakota. North Dakota is one of only three states where the position of Tax Commissioner is an elected office. I was elected North Dakota’s twenty-fifth Tax Commissioner in 2014. I am proud to serve the citizens of North Dakota and honored to work with the dedicated and professional staff of the Office of State Tax Commissioner.

During the 2013-15 biennium, the Office of State Tax Commissioner was authorized 134 full-time positions, which is 23 fewer positions than 20 years ago. We continually strive to find ways to be more efficient. Through the use of technology we have been able to maintain our level of service to taxpayers while reducing the number of staff...even as the level of activity continues to grow.

We are the primary revenue collection agency for the state. During the 2013-15 biennium, the department collected over \$11.4 billion in tax revenue. To put that in a historical context, tax collections totaled \$2.8 billion just ten years ago during the 2005-07 biennium. Over 95 percent of all state general fund revenue is collected by our agency. The Office of State Tax Commissioner collects and administers over 30 different taxes types. Some taxes are local taxes administered on behalf of political subdivisions, such as city sales, occupancy, and restaurant and lodging taxes. Other taxes, such as electric transmission line, coal severance and telecommunications, are collected by the state in lieu of property taxes and allocated back to counties to provide an important source of revenue for local governments.

For each different tax we administer, we provide education and guidance to help taxpayers understand their filing requirements, conduct discovery work to ensure taxpayers are complying with the law, conduct audits to verify that taxpayers are paying the correct amount, process returns, and above all provide excellent service to the taxpayers of North Dakota.

During the 2013-15 biennium the number of North Dakota taxpayers reached a record high. Here are a few statistics showing the number of returns processed:

<u>Return Type</u>	<u>2011-13 Biennium</u>	<u>2013-15 Biennium</u>	<u>Change</u>	<u>Percent Change</u>
Sales & Use Tax	350,000	390,000	40,000	11% Increase
Individual Income Tax	863,000	981,000	118,000	14% Increase
Income Tax Withholding	270,000	297,000	27,000	10% Increase

The most striking increase in our department’s workload relates to oil and gas production. For each producer or purchaser of oil and gas produced in North Dakota, a monthly report is filed with our office. During the 2011-13 biennium, our office processed nearly 6,200 oil and gas tax reports. During the 2013-15 biennium, that number grew 31 percent to nearly 8,100 reports.

The increase in the number of taxpayers is a good thing for the state of North Dakota. For our office, that increase translates into additional workload in the form of processing returns, accounting for payments, and

issuing refunds. There is also a corresponding increase in customer service volume responding to taxpayer questions and resolving errors. Through the hard work of our dedicated and experienced staff, we managed to meet the growing workload with no increase in the number of staff during the 2013-15 biennium.

The 2015 tax filing season saw a marked increase in fraudulent return activity. The increase in fraudulent activity in North Dakota corresponded to an increase nationwide. In order to address the increased fraud, many additional processes were implemented to verify the validity of return information, ensure refunds were not issued to fraudsters, and alert North Dakota taxpayers to any instances of suspected identity theft. These additional work processes resulted in a delay in the issuance of many refunds when compared to the prompt turn-around time in previous years. Most taxpayers were understanding of the delays caused by our additional work processes. We can all agree that defending against identity theft has to be our highest priority. Many of the processes implemented during the 2015 tax season will continue going forward. As fraudulent activity will undoubtedly continue, we will also continue our efforts to defend against it and protect taxpayers' personal information and tax dollars.

A significant accomplishment during the 2013-15 biennium was the implementation of our taxpayer access point (TAP). Business taxpayers can use TAP to more efficiently perform a variety of tasks, including:

- Apply for a new permit or account
- Electronically file original and amended returns
- Make and view payments
- View correspondence
- Retrieve account balances
- Make free Automated Clearing House (ACH) Debit payments

Another significant accomplishment was the implementation of an expanded homestead tax credit program. The homestead tax credit program is a state-funded program administered by our office to reduce property taxes for qualifying homeowners and renters. Low-income seniors or disabled persons may qualify for a credit for property taxes levied on up to \$125,000 of true and full property value. For the 2013-15 biennium, the eligibility criteria were significantly expanded and the biennial appropriation was increased from \$8.8 million to \$20 million.

In the 2013-15 Biennial Report of the Office of State Tax Commissioner you will find additional information on the accomplishments of our office, as well as information regarding how our office is structured, our statutory duties, and how we strive to serve the taxpayers of this great state. There is also a variety of useful data regarding the different tax types we administer.

As the level of business activity continues to grow in our state, so does the amount of work for our office. We will continue to look for ways to respond to the growing demands by improving how we do business and above all working diligently to fulfill our mission -- to fairly and efficiently administer the tax laws of North Dakota.



Ryan Rauschenberger  
Tax Commissioner

# POWERS AND DUTIES OF THE TAX COMMISSIONER

1. Shall perform all the duties imposed by law.
2. Shall exercise general supervision over all assessors of general property or other taxes, township, county, and city boards of equalization, and all other assessing officers in the performance of their duties. All assessments of property shall be made relatively just and equal in compliance with the laws of this state.
3. Shall direct actions and prosecutions to enforce the laws, penalties, liabilities 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 depositions to be taken like depositions of witnesses are taken in civil actions in the district courts.
7. May require a reassessment of property in any county to be made in accordance with N.D.C.C. ch. 57-14 whenever deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.
8. Shall examine all cases where evasions or violations of the laws of assessments and taxation are alleged, complained of, or discovered, and shall ascertain if existing laws are defective or are administered improperly or negligently.
9. Shall submit to the Governor and the Secretary of State as prescribed by N.D.C.C. § 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 to 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.*

## MISSION STATEMENT

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

## VISION STATEMENT

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

## GUIDING PRINCIPLES

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

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

### **We extend cooperation and assistance to fellow public servants.**

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

### **We uphold the Taxpayer Bill of Rights.**

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

### **We make wise and prudent use of all resources.**

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

### **We recognize employees are our biggest asset.**

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

### **We recognize each individual's contribution to the team.**

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

### **We value those with whom we work.**

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

# FUNCTIONS & RESPONSIBILITIES OF THE OFFICE OF STATE TAX COMMISSIONER'S DIVISION

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

## COMMISSIONER'S DIVISION

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

During the 2013-2015 biennium the Commissioner's Division included nine full-time positions which include: the Tax Commissioner and Deputy Commissioner, a human resources officer, a research analyst, an auditor, a public information specialist, an administrative assistant, and two office assistants.

### 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 TAX COMMISSIONER

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

### RESEARCH AND COMMUNICATION SECTION

The Research and Communication section serves as a liaison with the public, the media, the legislature, and other government agencies by providing information about the department's policies, programs, actions, services, and related tax matters.

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

The Research and Communication section also researches various tax-related issues and special projects, serves on a number of advisory councils and committees as needed, produces forms and publications for the Office of State Tax Commissioner, and is responsible for the department's website, intranet and social media.

## **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 Office of State Tax Commissioner 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.

## **INFORMATION MANAGEMENT & TECHNOLOGY DIVISION**

The Information Management and Technology Division is responsible for maintaining the operational infrastructure for the Office of State Tax Commissioner and includes two sections: Information Technology and Tax Processing.

The Information Technology section is responsible for supporting an integrated tax system (Gentax® and the onsite support staff) and all other software programs used throughout the department; developing strategies for implementation of tax legislation, electronic filing, security of federal and state data, technical support for the department's website and intranet; and supporting the PCs and peripheral devices used in the department.

The Tax Processing section is responsible for processing all incoming and outgoing mail, printing, validating, imaging, data entry, and storage of all tax records. They are also responsible for developing specifications for the software developer community

to produce high quality tax preparation software products.

During the 2013-2015 biennium the Information Management and Technology Division included 19 full time positions and up to 25 additional temporary staff during peak times. These positions include the director, eight information technology staff, and ten processing staff.

## **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, Office of State Tax Commissioner staff, legislators, state and local officials, and citizens, and prepare opinions on tax questions. The staff attorneys also analyze federal tax proposals and the impact these proposals may have on state tax laws.

During each North Dakota legislative session, the Legal Division develops and drafts bills for the Tax Commissioner to be presented to the Legislature, assists legislative committees by providing information regarding various legislative proposals, 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. 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.

The Legal Division conducts formal hearings before the Tax Commissioner or the Commissioner's 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 2013-2015 biennium the Legal Division included five full-time positions: three attorneys, one collections officer, and one legal assistant.

## FISCAL MANAGEMENT DIVISION

The Fiscal Management Division is the department's center for business transactions. This division directs and monitors the agency accounting and financial reporting systems as well as administering agency-wide functions of purchasing goods and services and providing administrative support. The division prepares and maintains the accounting records of total revenue received, expenditures for payroll and accounts payable, and tax refunds. It maintains the department's fixed asset inventory records, determines the level of insurance coverage for fixed assets, purchases office supplies and equipment, contracts or secures maintenance services, procures the printing of forms and brochures, and prepares the leases for office space.

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

The Fiscal Management Division establishes and implements accounting policies and procedures to ensure compliance with Office of Management and Budget (OMB) policies and guidelines, generally accepted accounting principles, and governmental accounting standards. In addition, the division assists other divisions in establishing and monitoring appropriate risk management and internal control. All records maintained by the department are subject to state audit. The division coordinates the annual audits conducted by the State Auditor's Office and the periodic banking audits conducted by the Bank of North Dakota.

During the 2013-15 biennium, the Fiscal Management Division included eight full-time positions: four account technicians, one accounting/budget specialist, one administrative assistant, one purchasing agent and one accounting manager/chief fiscal officer.

## TAX ADMINISTRATION DIVISION

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

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

In the 2013-2015 biennium, the Tax Administration Division included 87 full-time positions. Those positions are the director, two associate directors, one administrative assistant, forty-seven auditors, sixteen tax service specialists, seven collections officers, ten compliance officers, and three office assistants.

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

### **CORPORATE INCOME TAX**

The Corporate Income Tax section administers the state's income tax that is imposed on corporations doing business in this state.

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

In addition to audit functions, the section also provides taxpayer assistance with questions on tax policy, reviews refund requests, filing issues, and billing questions, as well as administers the division's Voluntary Disclosure Agreement program for income taxes.

## **INDIVIDUAL INCOME TAX AND WITHHOLDING**

The Individual Income Tax and Withholding section administers the state's income tax law for individuals, partnerships, S-corporations, estates and trusts. The section conducts audit reviews of taxpayer returns and requests for refunds, as well as investigates data from various sources to identify individuals and entities that have failed to report and remit taxes due.

The section is responsible for obtaining compliance from all employers responsible for withholding income tax from employees and small businesses responsible for remitting information returns. In addition to employers wage withholding, the section administers the oil and gas royalty withholding requirements on nonresidents. The section also provides taxpayer assistance via phone, email and office visits along with newsletters, guidelines, rules and regulations.

## **SALES AND SPECIAL TAXES COMPLIANCE**

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

Responsibilities of this section are to ensure returns for the various tax types are filed timely and accurately; administer exemption applications and compliance programs; process amended returns and refund requests; issue licenses to wholesale businesses selling alcoholic beverages; issue administrative tax rulings, provide newsletters, guidelines, rules and regulations; and provide taxpayer assistance. The section investigates data from various sources and implements projects to identify entities that have failed to report and remit taxes due. Projects and processes include field visitation, special events project, nexus and discovery project, voluntary disclosure program, and Canadian customs review project.

## **SALES AND SPECIAL TAXES AUDIT**

The primary focus is on customer service and the reduction of protested audits. The Sales and Special Taxes Audit section conducts field and office audits of sales and use taxes, local lodging, restaurant and motor vehicle rental taxes, fuel taxes, cigarette and tobacco taxes, and wholesale alcohol beverage taxes. At the completion of every audit, the auditor's responsibility is to educate the taxpayer, so any error identified during

the review can be corrected. The section also utilizes the Multistate Tax Commission's cooperative program to perform field audits on the state's behalf.

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

## **MOTOR FUELS, OIL & GAS, AND ESTATE TAXES**

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

### ***Motor Fuels***

The Motor Fuels Tax group is responsible for assuring that tax returns are filed timely and accurately, assists in fuel tax audits, provides newsletters, guidelines, rules, and regulations, and provides taxpayer assistance. The group processes refunds submitted by railroad, agricultural, and industrial consumers that use fuel in unlicensed equipment for off-road purposes. The group also processes refunds for fuel used in emergency medical services operation vehicles. The group provides administration of the Motor Fuel Tribal Agreements for the four Tribes in the state. The section also assists the Highway Patrol in conducting fuel inspections and processing violation notices for the dyed fuel program.

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

The Oil and Gas Tax group is responsible to assure that all tax returns are filed timely and accurately, provides newsletters, guidelines, rules and regulations, and provides taxpayer assistance. The group performs compliance reviews and audits of oil and gas companies conducting business in the state. The group provides administration of the Oil and Gas Agreement with the Three Affiliated Tribes for oil production on the Fort Berthold Reservation.

### ***Estate***

The Estate Tax group is responsible for collecting and processing Estate information based on Federal reporting guidelines and information. The section requests information from the estate for verification

when tax is due or a refund is requested and requests Estate Tax closing letters from the IRS.

## **COLLECTIONS**

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

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

## **REGISTRATION**

The Registration section is responsible for interpreting and enforcing statutes by determining licensing requirements. Determining compliance and corporate officer liability bond amounts, establishing filing frequency requirements, and managing taxpayer demographic information are also primary functions of the section.

In addition to managing the registration requirements for the department, the Registration section also serves as the first point of contact for many questions related to the Taxpayer Access Point (TAP) system, which is the online portal for filing returns for Sales and Use Tax, City Restaurant and Lodging Tax, and Income Tax Withholding. Another primary duty of the section is to examine and process refunds of sales tax to Canadian residents.

## **TAXPAYER SERVICES**

The Taxpayer Services section is responsible for the administration of tax rules by processing edit checks and business rules on tax returns across multiple tax types. Processes involved in accomplishing these tasks include managing a work item inventory, correcting reported tax information that may result in a difference in the refund or tax due amount, and providing taxpayer assistance through direct communication with the taxpayer to explain changes that were made to their return. Providing education to taxpayers is also a crucial part of the section to prevent taxpayers from making the same errors in the future.

An ongoing function of the Taxpayer Services section is to review and evaluate repetitive problems that exist and initiate new edit checks or business rules to mitigate them. This includes communication with vendors to ensure their software is compliant with department standards and requirements. Another primary function is to identify and prevent fraudulent refunds from being issued. Edit checks are ever-evolving to ensure the latest fraud schemes are recognized and caught up front. The goal of the section is to ensure that tax data and information collected is accurate and complete prior to issuing refunds or credit offsets to other state agencies. Through this process, staff members will often identify potential audit situations that will be referred to the appropriate audit section within the Department.

## **PROPERTY TAX DIVISION**

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 ensure that the property tax is administered equitably throughout the state.

The Property Tax Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments among the various counties in North Dakota. To assure property tax equalization, the division performs annual ratio studies, which compare true and full value of real estate with the sale price of properties which have been sold. If significant assessment variations exist among counties, the State Board of Equalization takes steps to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when the owners of those properties have appeared before the State Board of Equalization requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property Tax Division. Under this state-funded program, qualifying senior citizens and disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the local taxing districts by this reduction is reimbursed to them from the state general fund. Credits are allowed

not only against real property tax assessments but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

The Property Tax Credit for Disabled Veterans was funded by the 2009 Legislature to replace the disabled veterans' property tax exemption. This is a state-funded program that provides a property tax credit for the homestead of a disabled veteran with at least 50 percent service-connected disability.

Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the responsibility of the Property Tax Division. 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 property tax division, makes tentative valuations and the State Board of Equalization sets the final assessed valuations. The division 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 Property Tax Division 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 property tax appraisal by organizing courses for assessors and other local tax officials. Staff interprets tax statutes, reviews and analyzes legal questions, and provides information concerning changes in law or policy affecting property taxation. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer property tax, the division functions as a statistical and information resource center and facilitates communications among all levels of government to maintain efficiency, promote uniformity and achieve equalization within the property tax system. Statutes

concerning budgetary control of local taxing districts require the Property Tax Division to develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with firsthand knowledge of the procedures that they must use.

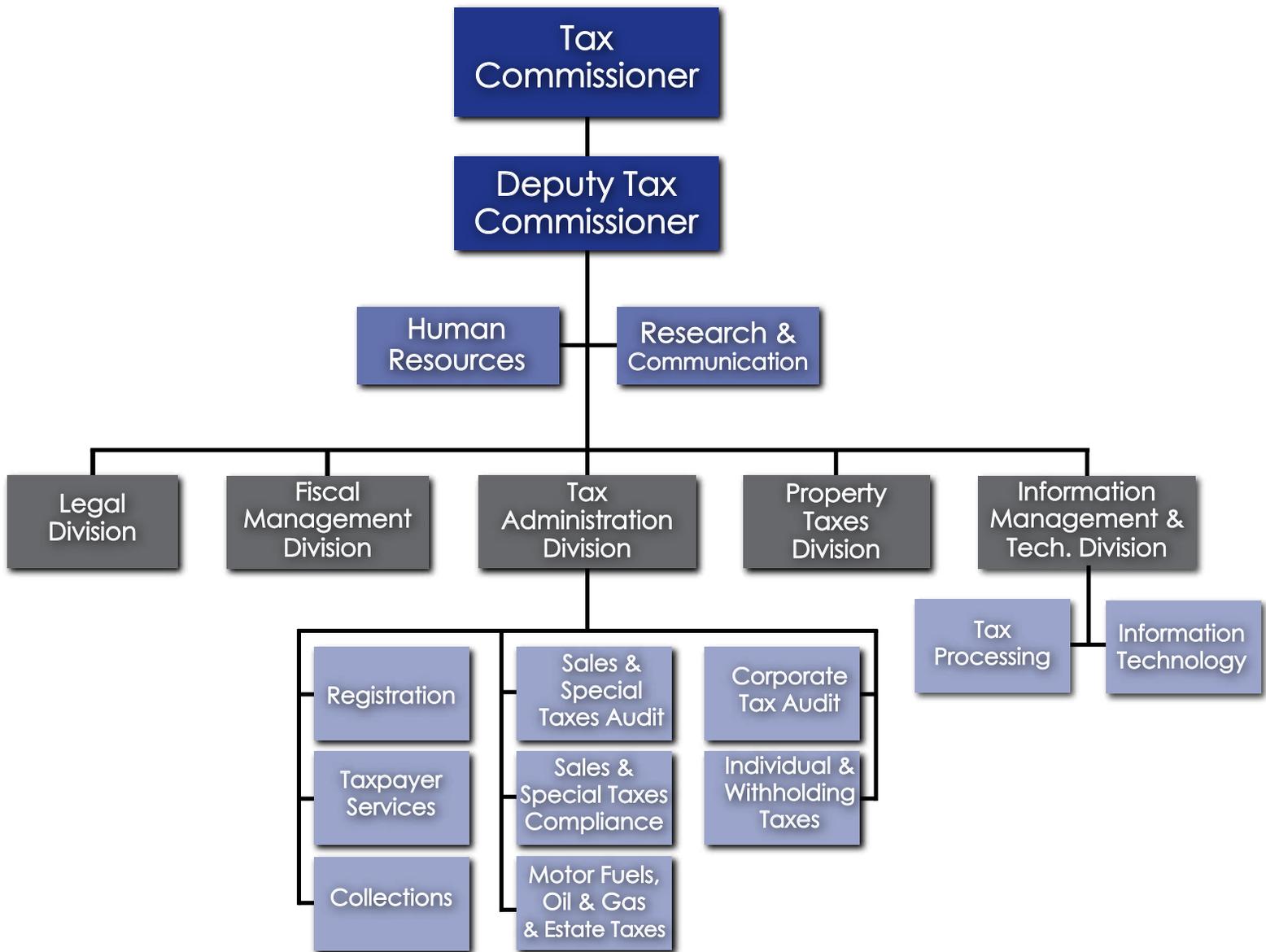
The Property Tax Division calculates and collects electric generation, distribution, and transmission taxes. The State Treasurer distributes those taxes to the political subdivisions.

Another responsibility of the Property Tax Division is administering the state severance tax on coal, the coal conversion privilege tax on electrical generating plants, coal gasification plants, and coal beneficiation plants. The section audits reports of collections of these energy-related taxes. The Property Tax Division 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 and plants 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 2013-2015 biennium included six full-time positions: the state supervisor of assessments, three property tax specialists, one tax service specialist, and one office assistant.

# AGENCY ORGANIZATIONAL CHART



# FUTURE DIRECTIONS

Legislation enacted during the 2015 Legislative Session impacts the administration of some of North Dakota's major taxes during the 2015-2017 biennium and in the years beyond. The following summarizes significant tax legislation enacted by the 2015 Legislature.

## **BROAD-BASED PROPERTY TAX RELIEF:**

The 2015 Legislature again renewed the property tax relief program through direct payments to school districts. The effect of this renewal is state-paid property tax relief that will reduce property-owners tax liabilities by as much as 125 mills, or up to forty percent. This will result in more than \$700 million in overall property tax relief for tax years 2015 and 2016 (property taxes payable in 2016 and 2017). An additional \$250 million in relief was enacted through renewal of a twelve percent tax credit for all classes of property, for two years, starting with 2015 property taxes (payable in 2016). The Legislature also granted \$23 million in permanent property tax relief through the transfer of some social services costs from the counties to the state.

## **ACROSS-THE-BOARD INCOME TAX RELIEF:**

The 2015 Legislature again enacted across-the-board income tax rate relief. Starting with tax year 2015, the individual income rates were reduced ten percent in all tax brackets. Additionally, the 2015 Legislature reduced corporation income tax rates five percent in all brackets.

## **SALES TAXES:**

- New sales tax exemptions were authorized for fertilizer plants and other chemical processing plants.
- New sales tax exemptions were authorized for sales of beneficiated coal and for materials used in the construction of a new coal mine.
- Other sales tax exemptions that were authorized include sales to qualified data centers, admissions to higher education events, and molds used in manufacturing processes.
- A motor vehicle excise tax exemption was authorized for certain donated vehicles.
- Beginning in July 2017, internet access fees will be exempt from sales tax.
- A portion of the sales tax on new farm machinery will be transferred to the agricultural research fund.
- A larger portion of sales and motor vehicle excise tax collections will be transferred to the senior citizens services fund.

## **INCOME TAXES:**

- The Housing Incentive Fund income tax credit was extended for two additional tax years, with a ceiling of \$30 million in total credits allowed for tax years 2015 and 2016.
- Some new size limitations were placed on Renaissance Zone income tax provisions expanding the allowable size of the zones.
- A new income tax credit was created for contributions to a qualifying nonprofit private elementary school.
- The law governing the endowment fund income tax credit was revised and expanded.
- Changes were made to the apportionment law governing how multi-state and multi-national corporations assign income to North Dakota. The legislation phases in a voluntary 'sales only' apportionment provision.

## **PROPERTY TAX:**

- The Homestead Credit program was expanded increasing the value of the homestead eligible for credit from \$100,000 to \$125,000.
- The Disabled Veteran Property Tax Credit program was expanded to allow the value of the land to be included in the determination of the maximum credit.
- The provisions regarding the requirement to provide written notice of assessment increases were modified and generally expanded.
- Certain county human services budgets will be required to be reduced with the associated costs to be paid by the North Dakota Department of Human Services.

## **OIL TAXES:**

- Nearly all oil extraction tax incentives that were subject to an oil price trigger were repealed.
  - In place of the triggered incentives, the 2015 Legislature permanently lowered the extraction tax rate from 6.5% to 5%, effective January 1, 2016.
  - In the event of sustained oil prices above \$90 per barrel, the oil extraction tax would increase to 6%.
- The 2015 Legislature again changed the distribution formula for oil and gas tax revenues. The formula change increases the amount of revenue received by counties, cities, townships and schools in the areas from which oil and gas production occurs. The Legislature also recognized the need for funding oil impacts beyond the 17 producing counties. It identified and designated as “hub cities” those cities from the central and eastern part of the state that were directly impacted by the oil industry. Hub cities receive a portion of the gross production tax revenues through the funding formula.

# COMPARATIVE STATEMENT OF COLLECTIONS FOR THE 2011-13 BIENNIUM & THE 2013-15 BIENNIUM

<u>Tax Type</u>	<u>2011-2013 Biennium</u>	<u>2013-2015 Biennium</u>	<u>Increase or Decrease</u>	
			<u>Dollars</u>	<u>Percent</u>
Sales and Use Taxes	\$2,388,294,763	\$2,709,201,667	\$320,906,904	13.44%
Individual Income Tax	1,050,065,224	1,053,746,758	3,681,534	0.35%
Corporation Income Tax	385,814,247	435,243,052	49,428,805	12.81%
Oil and Gas Taxes	4,068,542,204	6,048,792,082	1,980,249,878	48.67%
Coal Taxes	72,325,255	74,718,324	2,393,069	3.31%
Motor Fuels Taxes	417,220,709	461,195,372	43,974,663	10.54%
All Other Taxes and Fees	577,961,024	664,265,558	86,304,534	14.93%
Total Net Collections	\$8,960,223,424	\$11,447,162,813	\$2,486,939,389	27.76%

**Sales and Use Taxes:** The growth in this category is due to overall increases in taxable sales and purchases. Most industry sectors experienced growth especially those related to oil production. The sales growth indicates a robust, diversified economy in North Dakota.

**Individual Income Tax:** This category reflects the strength of the North Dakota economy including strong employment as well as increased wages and salaries. Royalty payments to mineral owners also contributed to resilience in this sector. Tax rates were reduced by 18% beginning with tax year 2011, by an additional 19% for tax years 2013 and 2014, and 10% beginning with tax year 2015. Despite the rate reductions, biennial revenues kept pace with the previous biennium.

**Corporation Income Tax:** Corporation income tax rates have been reduced nearly forty percent since tax year 2009. The robust biennial growth in this sector despite the rate reductions is due to the state's solid, diversified, growing economy.

**Oil and Gas Taxes:** The growth in this category is due to the remarkable growth in the state's oil production primarily in the Bakken formation.

**Motor Fuels Taxes:** The increase in this category is due to strong agriculture and energy sectors, industries which both utilize fuels as inputs. The population growth has led to additional vehicles on the state's roads as well.

**All Other Taxes and Fees:** The growth in this category is due primarily to increased city sales taxes, transmission line tax, cigarette and tobacco taxes, and prepaid wireless fees.



# STATEMENT OF COLLECTIONS: 2013-15 BIENNIUM

Description	Fiscal Year 2014			Fiscal Year 2015			2013-15 Biennium Net Total
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections	
Sales & Use Tax	\$1,348,252,510.13	\$ 28,085,468.42	\$ 1,320,167,041.71	\$ 1,410,243,563.75	\$21,208,938.48	\$1,389,034,625.27	\$ 2,709,201,666.98
Motor Vehicle Excise Tax (1)	226,365.01	1,001.60	225,363.41	362,339.66		362,339.66	587,703.07
City Occupancy Tax	4,386,490.57	13,091.50	4,373,399.07	4,705,912.72	32,775.13	4,673,137.59	9,046,536.66
City Sales Tax	228,776,286.83		228,776,286.83	258,117,910.34		258,117,910.34	486,894,197.17
City Restaurant and Lodging Tax	6,327,731.25		6,327,731.25	7,746,921.76		7,746,921.76	14,074,653.01
City Motor Vehicle Rental Tax	189,413.02		189,413.02	179,706.19		179,706.19	369,119.21
Individual Income Tax	632,139,885.46	116,000,000.00 *	516,139,885.46	681,606,872.19	144,000,000.00 *	537,606,872.19	1,053,746,757.65
Corporate Income Tax	270,404,246.94	31,000,000.00 *	239,404,246.94	237,838,805.52	42,000,000.00 *	195,838,805.52	435,243,052.46
Financial Institutions Tax	15,881,428.38	2,652,639.95	13,228,788.43	90,008.00	204,182.00	(114,174.00)	13,114,614.43
Cigarette Tax (Cities)	1,648,289.91	4,569.62	1,643,720.29	1,686,668.95	6,706.37	1,679,962.58	3,323,682.87
Cigarette Tax (Tribe)	68,792.28		68,792.28	72,347.92		72,347.92	141,140.20
Cigarette Tax (GF)	22,552,396.53	62,451.58	22,489,944.95	23,076,720.59	91,653.85	22,985,066.74	45,475,011.69
Tobacco Tax	7,053,181.49	20,835.05	7,032,346.44	7,796,925.39	41,590.48	7,755,334.91	14,787,681.35
Oil & Gas Gross Production Tax	1,492,982,452.06		1,492,982,452.06	1,286,652,421.22		1,286,652,421.22	2,779,634,873.28
Oil Extraction Tax	1,763,005,244.34	8,180,627.25	1,754,824,617.09	1,523,231,081.86	8,898,490.00	1,514,332,591.86	3,269,157,208.95
Telecommunications Tax	11,633,153.08	2,064.58	11,631,088.50	12,601,782.27	554.07	12,601,228.20	24,232,316.70
Wholesale Liquor/beer Tax	9,301,337.64	4,218.78	9,297,118.86	9,570,756.70	3,045.35	9,567,711.35	18,864,830.21
Estate Tax	14,466.04		14,466.04				14,466.04
Miscellaneous Remittances	9,399.36		9,399.36	7,673.50		7,673.50	17,072.86
Coal Severance Tax	11,233,706.50		11,233,706.50	11,293,806.20		11,293,806.20	22,527,512.70
Coal Conversion Tax	24,937,582.21		24,937,582.21	27,253,229.24		27,253,229.24	52,190,811.45
Transmission Line Tax	8,401,467.81		8,401,467.81	9,864,886.74		9,864,886.74	18,266,354.55
Music and Composition Tax	171,019.52		171,019.52	165,487.50		165,487.50	336,507.02
Sales & Use Tax Cash Bonds	627,000.83	132,360.45	494,640.38	368,598.49	326,572.80	42,025.69	536,666.07
Fuel Dealers & Inspection Fees	385,370.26		385,370.26	391,731.33		391,731.33	777,101.59
Motor Vehicle Fuel Tax	106,254,777.29	629,000.00 *	105,625,777.29	110,300,924.03	967,000.00 *	109,333,924.03	214,959,701.32
Special Fuel Tax	123,366,252.79	298,000.00 *	123,068,252.79	123,520,917.80	353,500.00 *	123,167,417.80	246,235,670.59
Motor Fuel Tax - Cash Bond	33,390.00	141,990.00	(108,600.00)	849.83	4,639.83	(3,790.00)	(112,390.00)
Non-game Wildlife Fund	29,697.89		29,697.89	26,372.04		26,372.04	56,069.93
Centennial Tree Trust Fund	31,225.99		31,225.99	28,853.87		28,853.87	60,079.86
Organ Transplant Support Fund	18,065.94		18,065.94	22,566.20		22,566.20	40,632.14
Airline Tax	178,594.45		178,594.45	224,092.44		224,092.44	402,686.89
Prepaid Wireless Fees	136,698.36	1,055.71	135,642.65	925,909.30	199.48	925,709.82	1,061,352.47
Provider Assessment	5,901,063.30		5,901,063.30	5,996,408.30		5,996,408.30	11,897,471.60
<b>TOTAL COLLECTIONS</b>	<b>\$ 6,096,558,983.46</b>	<b>\$ 187,229,374.49</b>	<b>\$ 5,909,329,608.97</b>	<b>\$ 5,755,973,051.84</b>	<b>\$ 218,139,847.84</b>	<b>\$ 5,537,833,204.00</b>	<b>\$ 11,447,162,812.97</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 \$149,739,102.05 in FY 14 and \$152,261,521.44 in FY 15.

# NET COLLECTIONS: FOR FISCAL YEARS 2008 TO 2015

TAX TYPE	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sales and Use Taxes (1)	\$530,428,326 (2)	\$607,340,013 (2)	\$602,646,177 (2)	\$775,358,375 (2)	\$1,121,475,348 (2)	\$1,267,191,866 (2)	\$1,320,167,042 (2)	\$1,389,034,625 (2)
Individual Income Tax	308,889,352	378,135,463	304,252,924	429,848,371	432,132,062	617,933,162	516,139,885	537,606,872
Corporation Income Tax	140,737,698	98,958,239	87,874,592	146,489,704	198,746,771	187,067,476	239,404,247	195,838,806
Oil Extraction Tax	182,366,018	185,814,920	280,611,437	496,749,735	865,121,628	1,277,370,124	1,754,824,617	1,514,332,592
Gross Production Tax	209,457,069	221,462,334	302,099,211	481,083,658	795,681,003	1,130,369,449	1,492,982,452	1,286,652,421
Coal Taxes (3)	39,047,086	41,640,124	37,660,601	34,372,905	36,432,447	35,892,807	36,171,289	38,547,031
Motor Fuel Taxes (4)	144,001,968	144,502,484	151,733,474	171,467,839	204,897,230	212,323,479	228,694,030	232,501,342
All Other Taxes & Fees (5)	165,700,036	177,699,228	183,666,212	220,973,195	276,983,176	300,605,396	320,946,047	343,319,515
<b>TOTAL NET COLLECTIONS</b>	<b>\$1,720,627,554</b>	<b>\$1,855,552,805</b>	<b>\$1,950,544,629</b>	<b>\$2,756,343,782</b>	<b>\$3,931,469,665</b>	<b>\$5,028,753,759</b>	<b>\$5,909,329,609</b>	<b>\$5,537,833,204</b>

(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 \$80,654,289 in FY 08, \$76,219,312 in FY 09, \$80,466,118 in FY 10, \$99,805,028 in FY 11, \$132,586,349 in FY 12, \$141,742,725 in FY 13, \$149,739,102 in FY 14, and \$152,261,521 in FY 15.

(3) Includes coal severance tax and coal conversion facilities privilege tax.

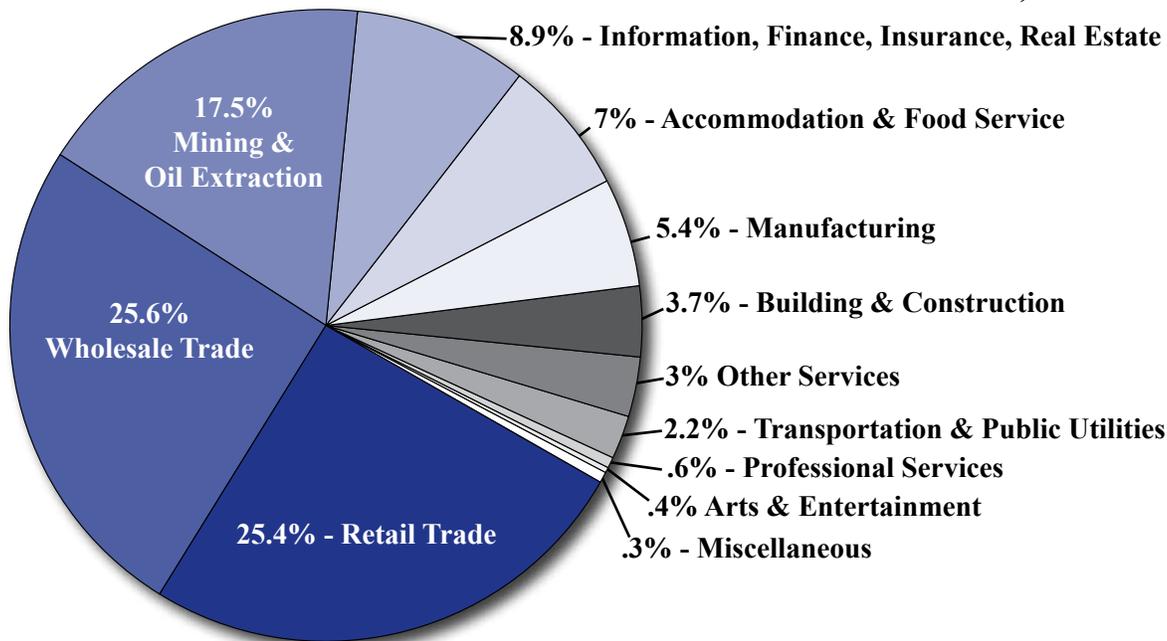
(4) Includes motor vehicle fuel and special fuel taxes.

(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, non-game wildlife contributions, centennial trees contributions, organ transplant support contributions, city restaurant and lodging, miscellaneous remittances, provider assessment, telecommunications tax, wholesale liquor tax, airline tax, city motor vehicle rental tax, and prepaid wireless fees.

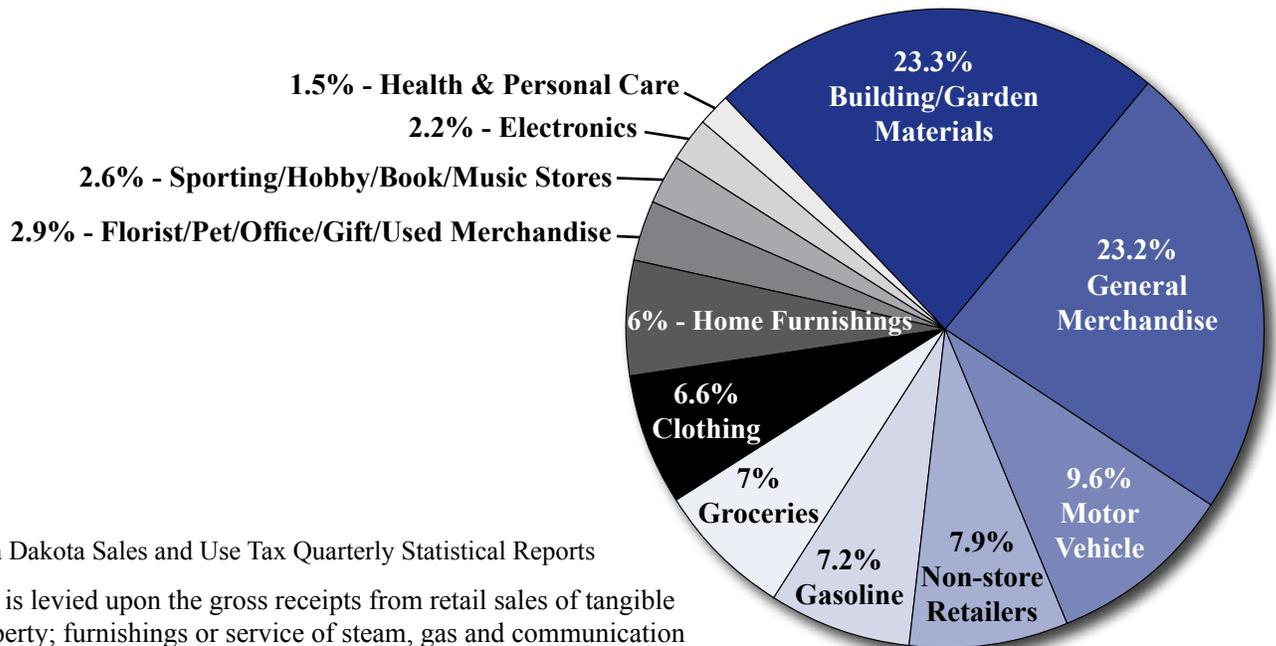
SOURCE: Comparative Statement of Collections, Office of State Tax Commissioner.

# TAXABLE SALES & PURCHASES IN THE 2013-15 BIENNIUM

## TAXABLE SALES AND TAXABLE PURCHASES BREAKDOWN BY MAJOR BUSINESS SECTORS



## TAXABLE SALES AND TAXABLE PURCHASES BREAKDOWN OF RETAIL TRADE SECTOR



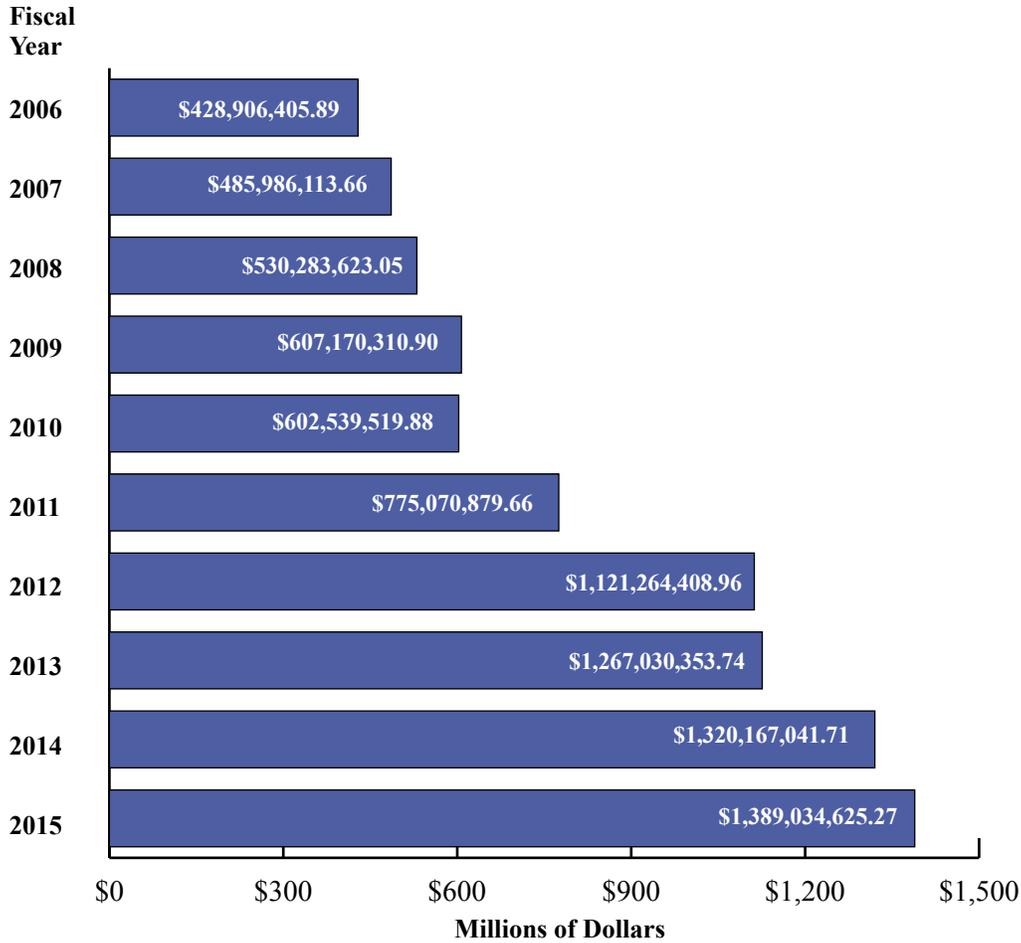
Source: North Dakota Sales and Use Tax Quarterly Statistical Reports

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 & USE TAX COLLECTIONS DURING FISCAL YEARS 2006 TO 2015



## DISTRIBUTION OF SALES TAX COLLECTIONS

	<u>Total Revenues</u>	<u>State General Fund</u>	<u>State Aid Distribution Fund</u>
Fiscal Year 2006	\$428,906,405.89	\$394,697,753.30	\$34,208,652.59
Fiscal Year 2007	485,986,113.66	447,233,112.63	38,753,001.03
Fiscal Year 2008	530,283,623.05	487,878,782.95	42,404,840.10
Fiscal Year 2009	607,170,130.90	558,606,900.84	48,563,410.06
Fiscal Year 2010	602,539,519.88	554,253,325.86	48,286,194.02
Fiscal Year 2011	775,070,879.66	712,958,004.76	62,112,874.90
Fiscal Year 2012	1,121,264,408.96	1,031,442,016.04	89,822,392.92
Fiscal Year 2013	1,267,030,353.74	1,165,535,777.18	101,494,576.56
Fiscal Year 2014	1,320,167,041.71	1,212,460,100.00	107,706,941.71
Fiscal Year 2015	1,389,034,625.27	1,265,786,681.93	123,247,943.34

## SALES & USE TAX

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

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

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

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

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

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

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

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

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

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

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

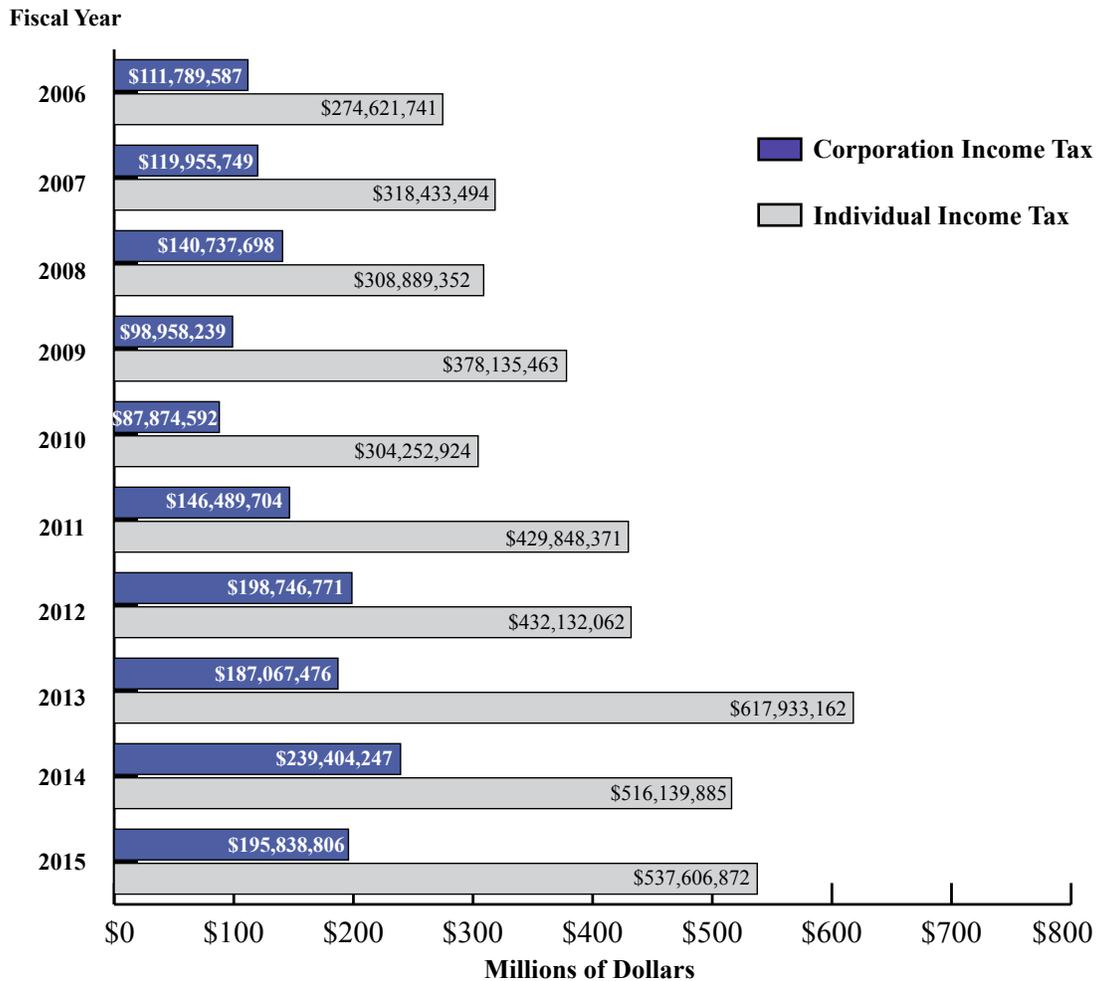
Effective July 1, 2005, the State enacted and adopted the national Streamlined Sales Tax Project.

Effective July 1, 2009, the sale of natural gas became exempt from sales tax. A sales tax exemption was also enacted for irrigation system repair parts, and for property used to compress, process, gather, or refine gas produced from an oil or gas well in the state. Purchases of tangible personal property used to construct or expand a telecommunications service infrastructure in the state was exempted from sales and use taxes.

Effective July 1, 2011, gross receipts from coin-operated amusement machines became exempt from sales tax. Also exempted was the machinery and equipment used in a new coal mine and the construction or expansion of oil refineries and gas gathering compressing and processing facilities.

Effective July 1, 2013, the sales tax exemption for gas gathering systems was expanded to include certain gas collection systems capable of capturing 75% of the gas from a well. The sales tax exemption for wind-powered electrical generating facilities was extended to January 1, 2017. A sales tax exemption was authorized for the construction or expansion of a plant designed to produce byproducts associated with coal gasification.

# NET INDIVIDUAL & CORPORATE INCOME TAX COLLECTIONS DURING FISCAL YEARS 2006 TO 2015



## Individual Income Tax

The individual income tax rates ranged from 2.1% to 5.54% of North Dakota taxable income for tax years through 2008. For tax years 2009 and 2010, tax rates ranged from 1.84% to 4.86% of North Dakota taxable income. For tax years 2011 and 2012, tax rates ranged from 1.51% to 3.99% of North Dakota taxable income. For tax years 2013 and 2014, tax rates ranged from 1.22% to 3.22% of North Dakota taxable income. For tax years beginning with 2015, the tax rates range from 1.10% to 2.90% of North Dakota taxable income. In the past four biennia, individual income tax rates have been reduced over 50%, yet collections generally outpace the rate reductions as the population grows and the economy expands.

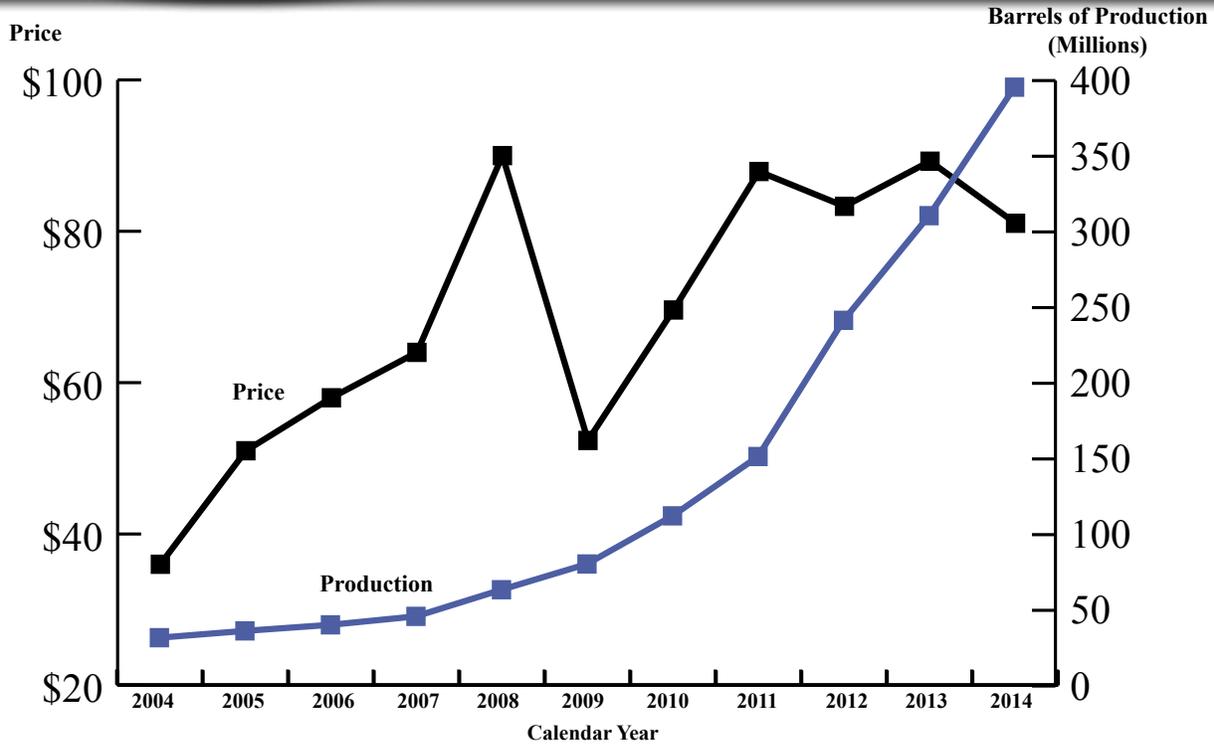
Individual income tax revenues are deposited in the State General Fund.

## Corporation Income Tax

The corporation income tax rates ranged from 2.6% to 7.0% of North Dakota taxable income for tax years through 2006. For tax years 2007 and 2008, rates ranged from 2.6% to 6.5%. For tax years 2009 and 2010, tax rates ranged from 2.1% to 6.4%. For tax years 2011 and 2012, tax rates ranged from 1.68% to 5.15%. For tax years 2013 and 2014, tax rates ranged from 1.48% to 4.53%. For the tax years beginning with 2015, tax rates range from 1.41% to 4.31%. In the past four biennia, corporation income tax rates and brackets have been reduced over 40%.

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

# ANNUAL CRUDE OIL PRODUCTION IN ND & DOMESTIC OIL PRICE PER BARREL DURING CALENDAR YEARS 2004 TO 2014



Production: North Dakota Industrial Commission Oil Statistics, Price: Average North Dakota Price from Tax Department Records

## OIL AND GAS GROSS PRODUCTION AND OIL EXTRACTION TAX REVENUES 2013-2015 BIENNIUM

	Fiscal Year 2014	Fiscal Year 2015	2013-2015 Biennium
<b>Net Collections</b>			
Oil & Gas Gross Production Tax	\$ 1,492,982,452	\$ 1,286,652,421	\$ 2,779,634,873
Oil Extraction Tax	1,754,824,617	1,514,332,592	3,269,157,209
<b>Total</b>	<b>\$ 3,247,807,069</b>	<b>\$ 2,800,985,013</b>	<b>\$ 6,048,792,082</b>
<b>Distributions</b>			
State General Fund			\$ 300,000,000
Legacy Fund			1,860,003,971
Counties/Cities/School Districts			664,713,564
Three Affiliated Tribes			443,091,534
Foundation Aid Stabilization Fund			282,260,499
Common Schools Trust Fund			282,260,499
Resources Trust Fund			560,321,002
Oil & Gas Impact Grant Fund			240,000,000
Oil & Gas Research Fund			10,000,000
Strategic Investment & Improvements Fund			786,998,031
Property Tax Relief Fund			341,790,000
State Disaster Fund			22,000,000
Renewable Energy Development Fund			3,000,000
Energy Conservation Fund			1,200,000
Outdoor Heritage Fund			18,641,973
Well Plugging & Site Reclamation Fund			10,000,000
<b>Total Distributions</b>			<b>\$ 6,043,625,089</b>

*Note: Some collections are distributed in the following biennium and some distributions are from revenue collected in the prior biennium. Distributions lag collections by a month.*

## OIL & 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 2014, gas production was taxed at the rate of 8.33¢ per 1,000 cubic feet (Mcf). In fiscal year 2015, the tax rate was 9.82¢ per MCF.

## 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.

Most of these incentives are triggered on and off based on oil prices. The majority of incentives have been triggered off since October 1, 2004 because oil prices have exceeded the trigger price.

## LEGACY FUND

The citizens of North Dakota approved a ballot measure to change the State's Constitution requiring 30% of all oil and gas tax revenues be deposited to the state's Legacy Fund. The Legacy Fund received \$1.860 billion in the 2013-15 biennium.

## TRIBAL/STATE OIL & GAS REVENUE SHARING

Beginning in Fiscal Year 2009, the Legislature authorized the Governor to enter into an agreement sharing the tax revenue from oil and gas production within the Fort Berthold Indian Reservation. In the 2013-15 biennium, this agreement resulted in \$443.1 million in revenue to the Three Affiliated Tribes.

# COAL CONVERSION TAX: 2013-15 BIENNIUM

## KILOWATT HOURS PRODUCED DURING THE 2013-15 BIENNIUM

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Total kWh Produced	27,119,065,770	28,232,239,271

## DISTRIBUTION OF COAL CONVERSION TAX REVENUE - 2013-15 BIENNIUM

<u>Distribution Fund</u>	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Counties	\$ 5,715,346	\$ 5,708,316
State General Fund <sup>1</sup>	<u>19,222,236</u>	<u>21,544,913</u>
Total Revenue Collected	\$24,937,582	\$27,253,229

<sup>1</sup> Five percent of funds allocated to the State General Fund are allocated to the Lignite Research Fund

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 Legislature. (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 Legislature 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 Legislature enacted a five-year exemption from part or all of the tax for new lignite-burning electrical generating plants.

The 1997 Legislature exempted from the Coal Conversion Facilities Tax the revenue from the sale of by-products, to a maximum of 35% 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 Legislature amended the definition of a coal conversion facility to include an electrical generating plant that has at least one single unit with a capacity of 10,000 kilowatts or more. The tax rate on installed capacity increased to .65 mill times 60% of installed capacity times the number of hours in the taxable period. Distribution

of the tax on installed capacity changed to allocate 85% to the State General Fund and 15% to the county in which the plant is located. The tax rate on synthetic natural gas increased to \$.135 per 1,000 cubic feet. The tax rate on gross receipts changed from 2.5% to 4.1%. Through December 31, 2009, the first \$41,666.67 each month from a coal conversion facility other than an electrical generating plant is deposited in the State General Fund. The remainder is allocated 85% to the State General Fund and 15% to the county in which the plant is located. The Legislature provided that the allocation of coal conversion tax to each county may not be less in each calendar year than it was in the immediately preceding calendar year.

The 2005 Legislature enacted the Coal Conversion Facility Tax Reduction Act that provides a five-year exemption for electrical generating plants that complete repowering. "Repowering" is defined as an investment of more than \$200 million or \$1 million per megawatt of installed nameplate capacity, whichever is less, in an existing power plant that modifies or replaces the process used for converting lignite coal from its natural form into electric power.

The 2007 Legislature provided that for the 2007-09 biennium 3½% of funds allocated to the State General Fund from the coal conversion tax must be allocated to the lignite research fund. After June 30, 2009, 5% must be allocated to the lignite research fund, through July 31, 2018.

The 2009 Legislature clarified that the exemption for new or repowered electrical generating plants is limited to a new or repowered unit of a plant. They provided that a coal conversion facility that achieves a 20% capture of carbon dioxide emissions during a taxable period receives a 20% reduction in the state general fund share of the coal conversion tax, and an additional reduction of 1% for every additional two percentage points of its capture of carbon dioxide emissions, up to 50% reduction for 80% or more capture.

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: 2013-15 BIENNIUM

## TONNAGES SEVERED DURING THE 2013-15 BIENNIUM

Taxable Tons Severed:

<u>County</u>	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Bowman	52,776	70,059
McLean	7,716,727	7,888,144
Mercer	17,490,551	16,572,739
Oliver	3,402,744	4,263,128
Williams	13,144	16,174
 Total Taxable Tons Severed	 28,675,942	 28,810,244

## DISTRIBUTION OF COAL SEVERANCE TAX REVENUE - 2013-15 BIENNIUM

<u>Distribution Fund</u>	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Counties (70%)	\$7,462,131.36	\$7,502,320.92
Land Board (30%)	3,198,056.30	3,215,280.40
Lignite Research (additional 2¢ per ton)	<u>573,518.84</u>	<u>576,204.88</u>
Total Revenue Collected	\$11,233,706.50	\$11,293,806.20

## 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.

Effective July 1, 1979, the tax was 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 Producer Price Index. The distribution of revenues remained the same.

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 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.

The 2009 Legislature prohibited imposition of coal severance tax on coal used to produce steam that is used in agricultural commodity processing facilities in North Dakota or adjacent states or any facility owned by the state or a political subdivision of the state, or on coal purchased for improvement through coal beneficiation and subsequently used in, or used to produce steam that is used in, agricultural commodity processing facilities located in North Dakota or adjacent states or any facility owned by the state or a political subdivision of the state.

## TRANSMISSION LINE TAX

The 2009 Legislature repealed N.D.C.C. ch. 57-33.1 under which transmission line taxes were collected. Collections represent payments made under N.D.C.C. ch. 57-06 by certain investor-owned utilities that owned or operated electrical transmission lines of 230 kilovolts or larger. After the fourth taxable year of operation they were taxed at the rate of \$300 per mile for lines initially placed in service after October 1, 2002.

	<b>2011-2013 Biennium</b>		<b>2013-2015 Biennium</b>	
	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
Transmission Line Tax	\$27,558.00	\$31,411.74	\$31,411.70	\$40,851.30

SOURCE: Property Tax Division, Office of State Tax Commissioner

## ELECTRIC GENERATION, DISTRIBUTION & TRANSMISSION TAXES

### TAXES CERTIFIED FOR COLLECTION FOR THE YEARS\*:

	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Electric Distribution Tax	\$5,902,159.39	\$6,517,261.89	\$5,958,263.73	\$7,051,446.68
Electric Transmission Tax	1,340,855.54	1,360,976.54	1,415,425.00	1,454,001.42
Electric Generation from Wind Tax	104,055.99	215,853.26	877,162.42	1,126,934.45
Electric Generation (from sources other than wind and coal)	17,168.71	17,200.77	150,616.66	228,611.91

SOURCE: Property Tax Division, Office of State Tax Commissioner

\*These taxes are levied by the State Board of Equalization in August of the indicated year and are payable in the following year.

The 2009 Legislature repealed N.D.C.C. ch. 57-33, the Rural Electric Cooperative Gross Receipts Tax, and ch. 57-33.1, Taxation of Cooperative Electrical Generating Plants, and enacted ch. 57-33.2, Electric Generation, Distribution, and Transmission Taxes. The new taxes apply to all electric generation, distribution, and transmission companies that are not subject to taxation under ch. 57-06. A company subject to ch. 57-06 may file an irrevocable election to be taxed under ch. 57-33.2 instead. The taxes are paid to the State Tax Commissioner and allocated to counties and taxing districts.

## TELECOMMUNICATIONS CARRIERS TAX

Beginning with tax year 1998, all telecommunications companies including mutual and cooperative telephone companies pay a gross receipts tax at the rate of 2½% 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.

	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Telecommunications Tax Assessed	\$11,065,962.27	\$11,156,359.24	\$11,992,557.24	\$12,639,098.86

SOURCE: Proceedings of the State Board of Equalization, Office of State Tax Commissioner

## CIGARETTE & TOBACCO PRODUCTS TAX

	2011-2013 Biennium		2013-2015 Biennium	
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
3¢ per package cigarette tax distributed to cities on population basis	\$1,530,253.89	\$1,525,111.81	\$1,648,289.91	\$1,686,668.95
41¢ per package cigarette tax distributed to State General Fund	\$20,916,469.68	\$20,843,194.43	\$22,526,628.97	\$23,051,151.81
28% of the wholesale price of tobacco products distributed to State General Fund	\$5,663,311.85	\$6,244,020.49	\$7,053,181.49	\$7,796,925.39

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

	2011-2013 Biennium		2013-2015 Biennium	
	<u>FY 2012</u>	<u>FY 2013</u>	<u>2014</u>	<u>2015</u>
Amount distributed to the Tribe	\$75,371.41	\$75,876.28	\$68,792.28	\$72,347.92
Amount distributed to the State General Fund	\$28,231.88	\$28,421.00	\$25,767.56	\$25,568.78

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Airlines	\$218,365.56	\$219,632.38	\$202,247.12	\$225,224.33

\* 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 & SPECIAL FUEL TAXES COLLECTIONS & DISBURSEMENTS 2013-15 BIENNIUM

### Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Collections - Tax, Penalty, Interest, & Fees

	<b>FY-2014 Dollars</b>	<b>FY-2015 Dollars</b>
<b>Aviation Fuel:</b>		
Aviation Gasoline - at \$.08 Per Gallon	\$ 149,922.27	\$ 145,556.37
Jet Fuel - at \$.08 Per Gallon	1,916,567.39	1,937,703.93
Penalty and Interest	3,023.69	1,557.08
<i>Total Collections</i>	\$ 2,069,513.35	\$ 2,084,817.38
Total Refunded	30,938.25	18,813.89
<i>Net Collections</i>	\$ 2,038,575.10	\$ 2,066,003.49
<b>Motor Vehicle Fuel:</b>		
Gasoline - at \$.23 Per Gallon	\$ 21,542,325.86	\$ 18,358,645.10
Gasohol - at \$.23 Per Gallon	82,469,898.31	89,558,032.92
Penalty and Interest	44,288.94	59,333.93
<i>Total Collections</i>	\$ 104,056,513.11	107,976,011.95
Total Refunded	600,412.20	1,019,938.48
<i>Net Collections</i>	\$ 103,456,100.91	\$ 106,956,073.47
<b>Special Fuel:</b>		
Diesel-Propane - at \$.23 Per Gallon	\$ 97,215,797.56	\$ 98,187,230.49
Diesel-Heating-Kerosene-Propane - at 2% or \$.04 Per Gallon	22,515,318.11	21,885,392.50
Heating	0.00	0.00
Penalty and Interest	73,932.02	70,759.23
<i>Total Collections</i>	\$ 119,805,047.69	\$ 120,143,382.23
Total Refunded	281,824.63	341,159.99
<i>Net Collections</i>	\$ 119,523,223.06	\$ 119,802,222.23
<b>Consolidated Laboratories Inspection Fees:</b>		
From Motor Vehicle Fuel	\$ 117,981.92	\$ 122,468.31
From Special Fuels (except Propane)	229,794.92	232,359.81
<i>Total Collections</i>	\$ 347,776.84	\$ 354,828.12
<b>License Fees:</b>		
Aviation Fuel Tax Licenses	\$ 340.00	\$ 340.00
Motor Vehicle Fuel Tax Licenses	300.00	400.00
Special Fuels (Diesel-Heating-Kerosene) Tax Licenses	360.00	1,000.00
Liquefied Petroleum Gas Tax Licenses	60.00	60.00
<i>Total Collections</i>	\$ 1,060.00	\$ 1,800.00
<b>Cash Bonds:</b>	(\$ 108,600.00)	(\$ 3,800.00)
<b>Tribal Tax Collections:</b>		
Standing Rock Gasoline/Gasohol - at \$.23 Per Gallon	\$ 334,355.22	\$ 352,340.67
Standing Rock Diesel Fuel - at \$.23 Per Gallon	30,978.03	39,785.45
Spirit Lake Gasoline/Gasohol - at \$.23 Per Gallon	244,527.02	291,284.19
Spirit Lake Diesel Fuel - at \$.23 Per Gallon	10,692.54	11,366.34
Three Affiliated Gasoline/Gasohol - at \$.23 Per Gallon	1,050,224.64	1,013,500.66
Three Affiliated Diesel Fuel - at \$.23 Per Gallon	1,417,527.89	1,199,193.58
Turtle Mountain Gasoline/Gasohol - at \$.23 Per Gallon	575,628.29	691,163.86
Turtle Mountain Diesel Fuel - at \$.23 Per Gallon	31,339.34	44,508.82
<i>Total Tribe Gasoline/Gasohol - at \$.23 Per Gallon</i>	\$ 2,204,735.17	\$ 2,348,289.38
<i>Total Tribe Diesel Fuel - at \$.23 Per Gallon</i>	\$ 1,490,537.80	\$ 1,294,854.19
<b>Grand Total of Collections</b>	\$ 226,171,310.99	\$ 230,557,039.67
<b>Grand Total of Refunds</b>	913,175.08	1,379,912.36
<b>Grand Total of Net Collections</b>	\$ 225,258,135.91	\$ 229,177,127.31

## AVIATION FUEL, MOTOR VEHICLE FUEL & SPECIAL FUEL TAXES TAXABLE GALLONS 2013-15 BIENNIUM

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Taxable Gallons	FY-2014 Gallons	FY-2015 Gallons
<b>Aviation Fuel:</b>		
Aviation Gasoline - at \$.08 Per Gallon	1,896,248	1,771,993
Jet Fuel - at \$.08 Per Gallon	24,181,107	24,415,947
<i>Total Taxable Gallons</i>	26,077,355	26,187,940
Gallons Refunded \$.08 Per Gallon Tax at 4%	0.00	32,209
Other Refunds - US Gov't Etc	211,011	171,333
<i>Net Collections at \$.08</i>	25,866,344	25,984,398
<b>Motor Vehicle Fuel:</b>		
Gasoline - at \$.23 Per Gallon	95,015,147	81,199,631
Gasohol - at \$.23 Per Gallon	366,462,128	397,309,321
<i>Total Taxable Gallons</i>	461,477,275	478,508,952
Gallons on which Tax was Refunded	2,739,283	2,192,469
<i>Net Taxable Gallons</i>	458,737,992	476,316,483
<b>Special Fuel:</b>		
Diesel-Propane - at \$.23 Per Gallon	431,878,855	426,155,431
Diesel-Kerosene-Propane - at 2% or \$.04 Per Gallon	589,332,437	574,069,505
Heating	82,171,047	79,997,280
<i>Total of Taxable Gallons</i>	1,103,382,339	1,080,222,216
<i>Gallons on which Tax was Refunded</i>	979,719	1,125,794
<i>Grand Total Net Taxable Gallons</i>	1,102,402,620	1,079,096,422
<b>Grand Total Taxable Gallons</b>	<b>1,587,006,956</b>	<b>1,581,397,303</b>

**Aviation Fuel:** A per gallon tax is levied on all aviation fuel. For this biennium the tax was \$.08 per gallon. The tax is refundable to emergency medical units and consumers. 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.

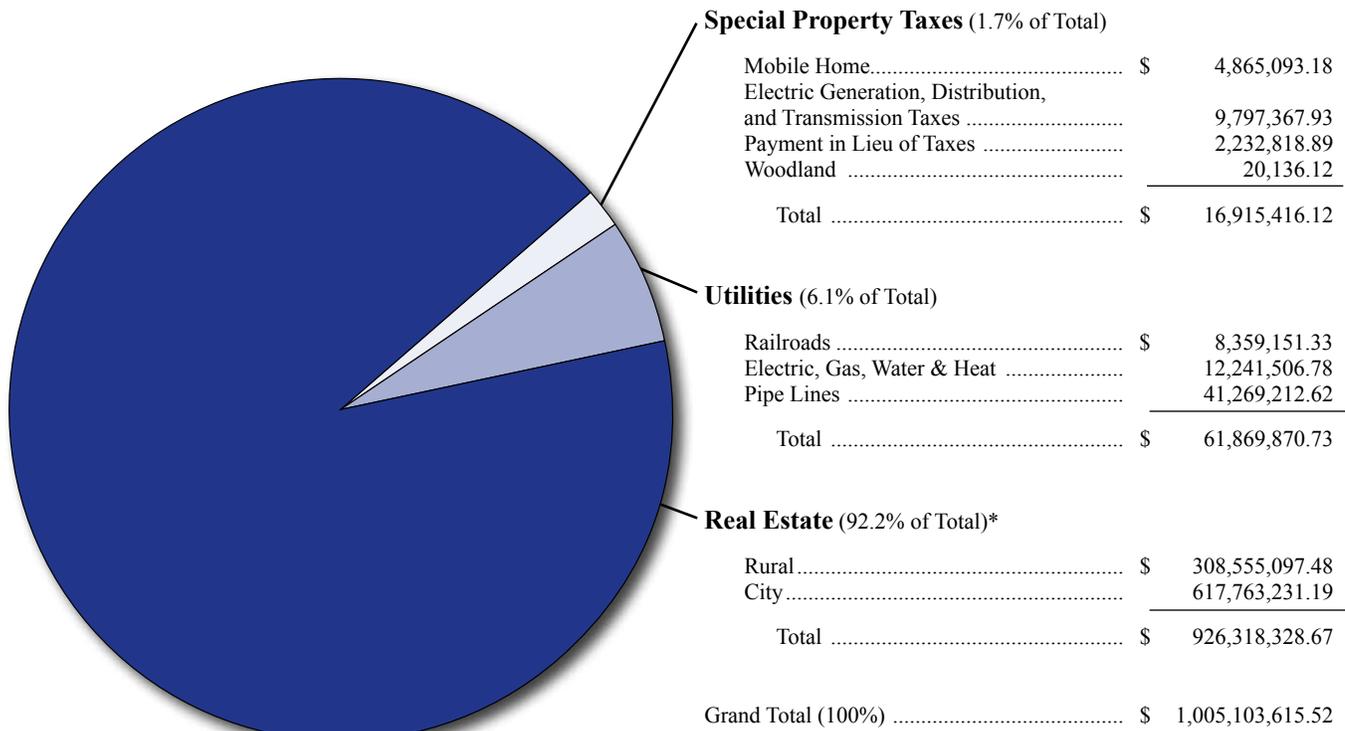
**Motor Vehicle Fuel:** A per gallon tax is levied on all motor vehicle fuel (gasoline and gasohol). For this biennium the tax was \$.23 per gallon. The tax is refundable when the fuel is for emergency medical service, or is used in non-licensed equipment for agricultural, industrial or railroad purpose. Refunds to industrial consumers are reduced by \$.005 per gallon. The \$.005 per gallon withheld is deposited into the Agriculturally Derived Fuel Tax Fund. Refunds to agriculture consumers are reduced by \$.07 per gallon. Of the \$.07 per gallon withheld, \$.01 per gallon is earmarked for ethanol production incentives, \$.02 per gallon is deposited into the Agriculturally Derived Tax Fund, and \$.04 per gallon is deposited into the Agricultural Research Fund.

**Special Fuels:** For this biennium the tax was \$.23 per gallon. The tax for dyed fuel and kerosene used in non-licensed equipment was \$.04 per gallon. A tax of 2% is levied on propane. Fuel that qualified for heating fuel purposes, including dyed fuel, kerosene, and propane, is exempt from tax. The Tax is refundable for emergency medical service. Refrigeration units using clear diesel may receive a refund on the difference between the \$.23 and \$.04 tax.

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

**Tribal Taxes:** The Standing Rock Sioux, Spirit Lake Tribes, Three Affiliated Tribes, and Turtle Mountain 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 & SPECIAL ASSESSMENTS (LEVIED IN 2014 - PAYABLE IN 2015)



\* Includes all special assessments.

Source: 2014 Property Tax Statistical Report compiled by the Office of State Tax Commissioner.

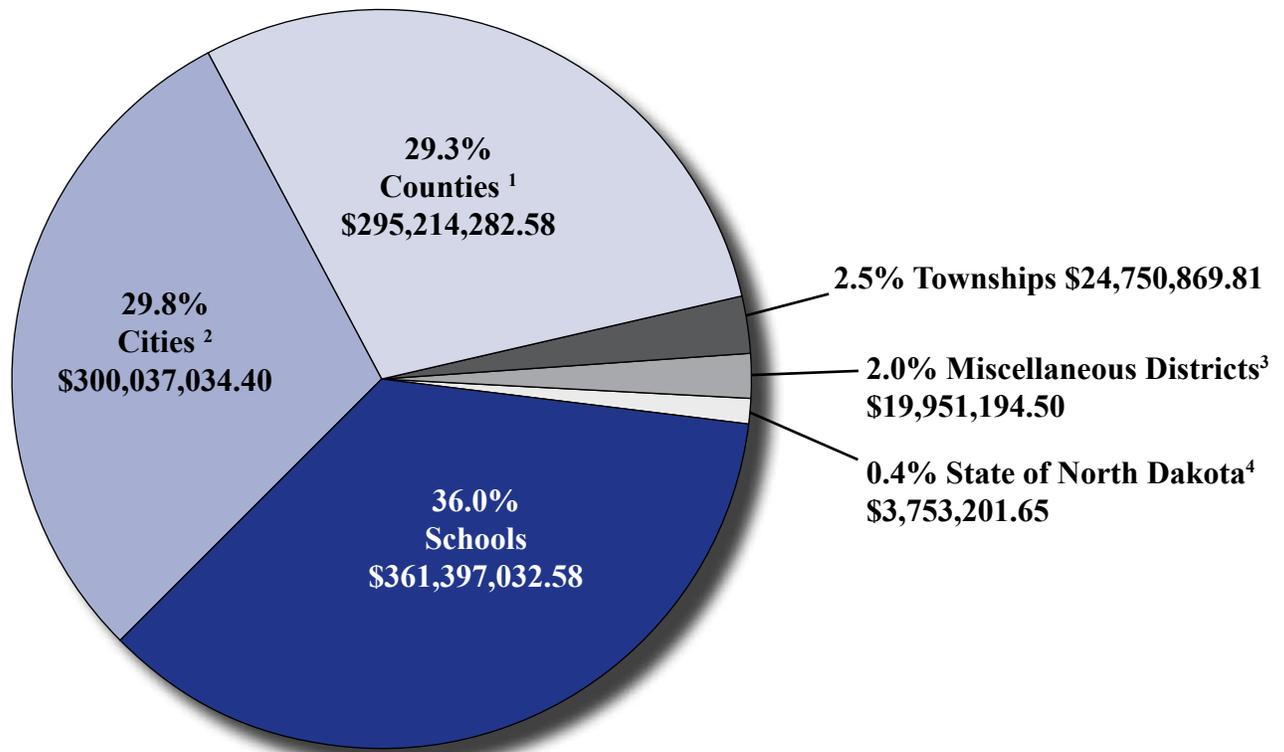
## Property Tax

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%. All wind generation units with a nameplate capacity of 100 kilowatts or more completing construction after December 31, 2014 and those that are 20 years or more from the first assessment date will be subject to payments in lieu of property tax under N.D.C.C. § 57-33.2-04 as well as all administrative provisions of N.D.C.C. ch. 57-33.2.

The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Electric generation distribution and transmission companies that are not subject to taxation under N.D.C.C. ch. 57-06 are subject to electrical generation distribution and transmission taxes under N.D.C.C. ch. 57-33.2. 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.

**DISTRIBUTION OF GENERAL AD VALOREM PROPERTY TAXES, SPECIAL PROPERTY TAXES & SPECIAL ASSESSMENTS (LEVIED IN 2014 - PAYABLE IN 2015)**



**Grand Total - \$1,005,103,615.52**

<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: 2014 Property Tax Statistical Report compiled by the Office of State Tax Commissioner.

## PROPERTY TAX REFUNDS & CREDITS FOR SENIOR CITIZENS & PERSONS WITH PERMANENT & 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>
2004	1,322	\$ 186,896	3,817	\$1,655,555
2005	1,273	182,947	3,712	2,025,029
2006	1,302	188,418	3,677	2,008,310
2007	1,998	287,682	3,466	2,342,186
2008	2,051	302,362	3,715	2,396,968
2009	2,400	550,955	3,977	2,912,719
2010	2,367	584,610	4,451	3,375,376
2011	2,260	581,965	4,359	3,307,844
2012	2,284	583,706	4,265	3,347,838
2013	2,680	724,635	6,740	4,922,251
2014	2,814	779,249	8,964	6,468,586

The North Dakota Legislature has provided a homestead property tax credit program since 1969. Persons 65 years of age or older, or totally and permanently disabled, who meet the requirements of the program are eligible to receive a credit to reduce property taxes on their home. Qualified renters receive a partial refund of their rent. Since 1977 the maximum income eligibility limit has been adjusted by the Legislature as follows: from \$8,000 to \$9,000 in 1979, to \$10,000 in 1981, to \$12,000 in 1985, to \$13,000 in 1989, to \$13,500 in 1995, to 14,000 in 1999, to \$14,500 in 2005, to \$17,500 in 2007, to \$26,000 in 2009, and to \$42,000 in 2013.

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 2013 AND 2014 (PAYABLE IN 2014 AND 2015)

<u>Income of</u>	<u>Reduction</u>	<u>Maximum Reduction</u>
\$ 0 - \$22,000	100%	\$4,500
\$22,001 - \$26,000	80%	3,600
\$26,001 - \$30,000	60%	2,700
\$30,001 - \$34,000	40%	1,800
\$34,001 - \$38,000	20%	900
\$38,001 - \$42,000	10%	450

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

## PROPERTY TAX CREDITS FOR DISABLED VETERANS

<b><u>Tax Year</u></b>	<b><u>Number of Qualifying Disabled Veterans</u></b>	<b><u>Disabled Veterans' Credit Tax Amount</u></b>
2009	1,513	\$ 1,627,763.06
2010	1,849	1,961,238.32
2011	2,206	2,321,952.01
2012	2,460	2,595,509.12
2013	2,661	2,764,831.61
2014	2,902	3,071,485.38

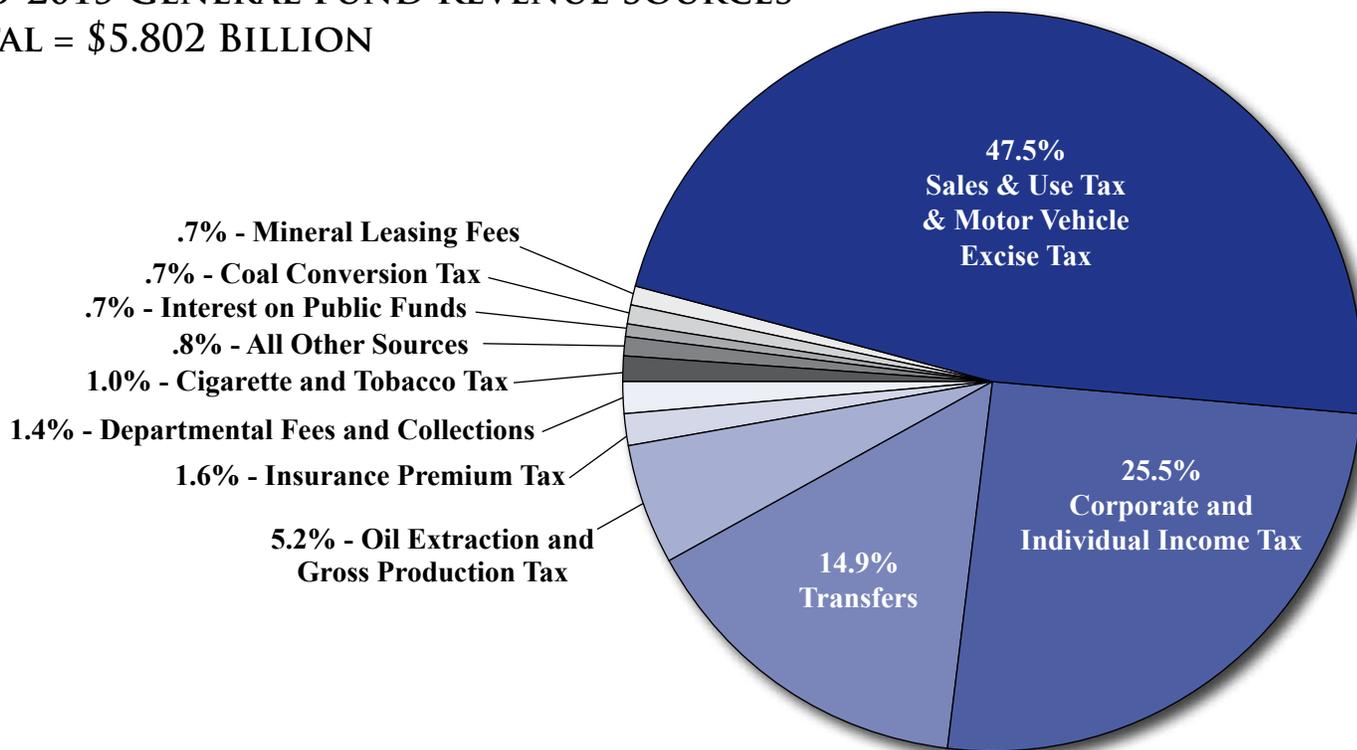
Prior to 2009, a property tax exemption existed for disabled veterans with at least 50 percent service-connected disability and limited income. The 2009 Legislature repealed that exemption and enacted N.D.C.C. § 57-02-08.8, which provides a credit for disabled veterans with at least 50 percent service-connected disability. The credit is equal to the veteran's compensation rating for service-connected disabilities, applied against the first \$6,750 dollars of taxable valuation of the homestead owned and occupied by the disabled veteran. There is no income test. An unremarried surviving spouse of an eligible disabled veteran is also eligible for the credit. The State reimburses counties for tax revenue lost by political subdivisions due to the credits.

The 2011 legislature provided that a disabled veteran who has an extra-schedular rating to include individual unemployability that brings the veteran's total disability rating to 100 percent is also eligible for the credit. An unremarried surviving spouse who is receiving department of veterans' affairs dependency and indemnity compensation receives a 100 percent exemption.

# STATE GENERAL FUND REVENUES & EXPENDITURES IN 2013-15 BIENNIUM

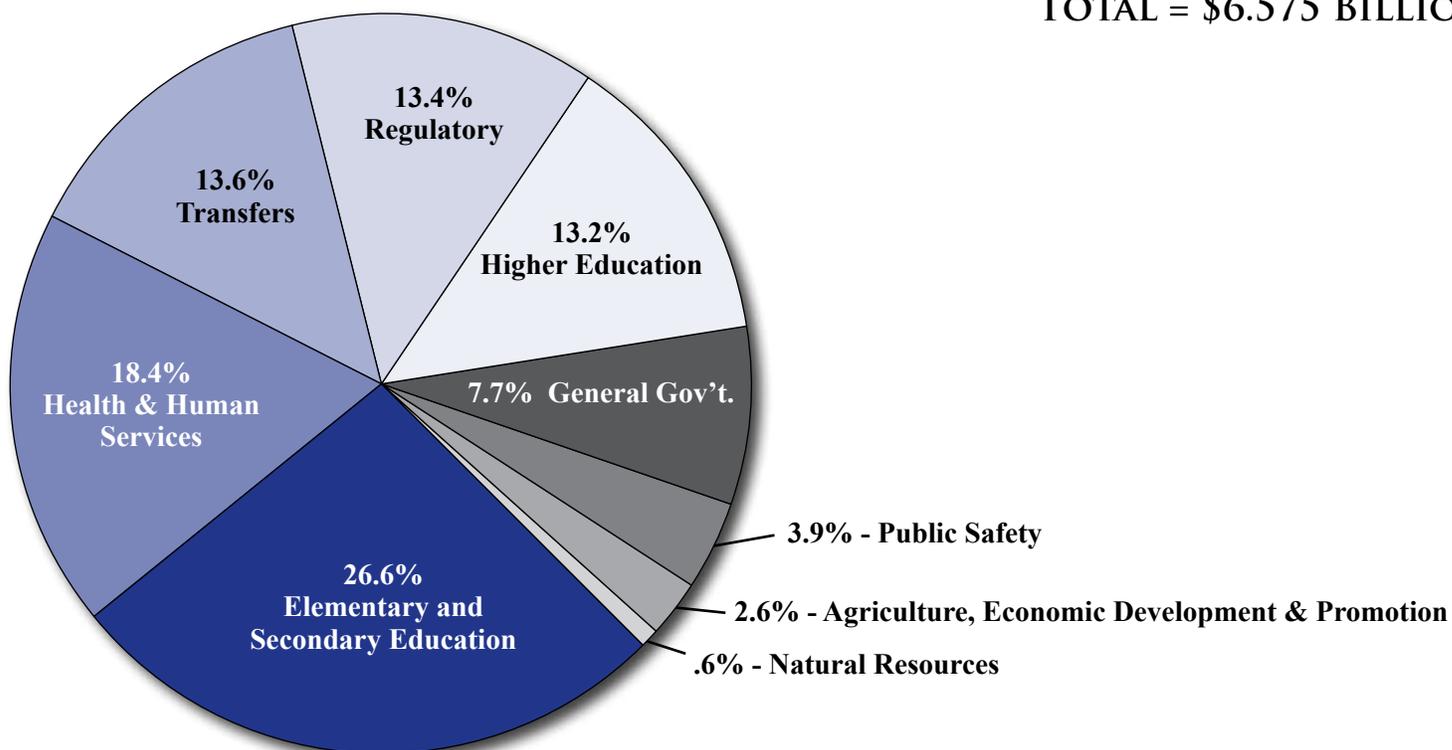
## 2013-2015 GENERAL FUND REVENUE SOURCES

TOTAL = \$5.802 BILLION



## 2013-2015 GENERAL FUND EXPENDITURES BY PROGRAM

TOTAL = \$6.575 BILLION



Source: Office of Management and Budget, November 2015.

# STATEMENT OF EXPENDITURES FOR THE 2013-15 BIENNIUM

Description	Commissioner's Division	Legal Division	Fiscal Mgmt. Division	Taxpayer Services Division	Property & Utility Taxes Division	Information Mgmt. & IT Division	Disabled Veterans Credit	Homestead Tax Credit	TOTAL
Salaries and Wages									
FY 14	\$ 857,850.56	\$ 434,820.44	\$ 608,734.06	\$ 6,072,088.04	\$ 456,325.80	\$ 1,258,105.77			\$ 9,687,924.67
FY 15	918,358.42	504,466.45	639,015.48	6,560,170.89	469,284.55	1,279,227.92			\$ 10,370,523.71
Information Services									
FY 14	8,840.23	2,211.95	4,863.51	58,563.77	3,036.87	430,252.76			\$ 507,769.09
FY 15	7,306.98	1,826.36	2,866.27	55,600.39	2,696.04	436,175.57			\$ 506,471.61
Operating Expenses									
FY 14	68,184.58	53,375.36	232,362.47	773,463.97	60,983.21	1,952,329.44			\$ 3,140,699.03
FY 15	70,006.15	40,119.21	280,769.48	818,296.00	29,527.19	2,838,580.11			\$ 4,077,298.14
Disabled Veterans Credit									
FY 14							2,764,831.61		\$ 2,764,831.61
FY 15							2,650,210.73		\$ 2,650,210.73
Homestead Tax Credit									
FY 14								5,642,348.45	\$ 5,642,348.45
FY 15								7,258,744.48	\$ 7,258,744.48
TOTAL									
FY 14	\$ 934,875.37	\$ 490,407.75	\$ 845,960.04	\$ 6,904,115.78	\$ 520,345.88	\$ 3,640,687.97	\$ 2,764,831.61	\$ 5,642,348.45	\$ 21,743,572.85
FY 15	\$ 995,671.55	\$ 546,412.02	\$ 922,651.23	\$ 7,434,067.28	\$ 501,507.78	\$ 4,553,983.60	\$ 2,650,210.73	\$ 7,258,744.48	\$ 24,863,248.67
<b>BIENNIAL TOTAL</b>	<b>\$ 1,930,546.92</b>	<b>\$ 1,036,819.77</b>	<b>\$ 1,768,611.27</b>	<b>\$ 14,338,183.06</b>	<b>\$ 1,021,853.66</b>	<b>\$ 8,194,671.57</b>	<b>\$ 5,415,042.34</b>	<b>\$ 12,901,092.93</b>	<b>\$ 46,606,821.52</b>

# RESOURCES AVAILABLE FROM THE OFFICE OF STATE TAX COMMISSIONER

## ADMINISTRATION

- Biennial Report of the Office of State Tax Commissioner
- Brochures
  - Career Opportunities
  - Tax Incentives for Business
- State and Local Taxes: An Overview and Comparative Guide (a.k.a. The Red Book)
- Taxpayer Bill of Rights
- Business Reports, Forms and Licenses Required in the State of North Dakota

## INCOME, OIL, SALES, AND SPECIAL TAXES

- Brochures:
  - No Dyed Fuel on the Highway
  - Canadian Requests for Refunds
  - North Dakota Sales Tax
- Guidelines
  - Income Tax                      - Income Withholding Tax
  - Sales and Use Tax              - Local Option Taxes
- Income Withholding Tax Information for Employers
- Income Withholding Tax Tables
- Information at the Source Return Requirements and Procedures
- Newsletters
  - Practitioners                      - Oil and Gas
  - Wholesale Alcohol              - Motor Fuels
  - Sales and Use
- Notification of the Gas Tax Rate
- Sales and Use Tax Rate Charts
- Statistical Reports
  - Sales and Use Tax
  - Income Taxes by School District
- Supplemental Tax Guide for U.S. Armed Forces
- Tax Law and Administrative Rules
  - Alcohol Tax                      - Income Tax
  - Aviation Fuel Tax              - Motor Vehicle Fuel Tax
  - Aviation Excise Tax              - Motor Veh. Excise Tax
  - Cig. & Tobacco Taxes              - Oil and Gas Tax
  - Estate Tax                      - Sales and Use Tax
  - Special Fuel Tax              - Gross Receipts Taxes

## PROPERTY TAX

- 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
  - Guide to Assessing Agricultural Land in North Dakota
- 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

Most of the above publications are available online at: [www.nd.gov/tax](http://www.nd.gov/tax)

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Phone: 877.328.7088



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# ND Tax

NORTH DAKOTA

FAIR, EFFICIENT TAX ADMINISTRATION FOR NORTH DAKOTA



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