

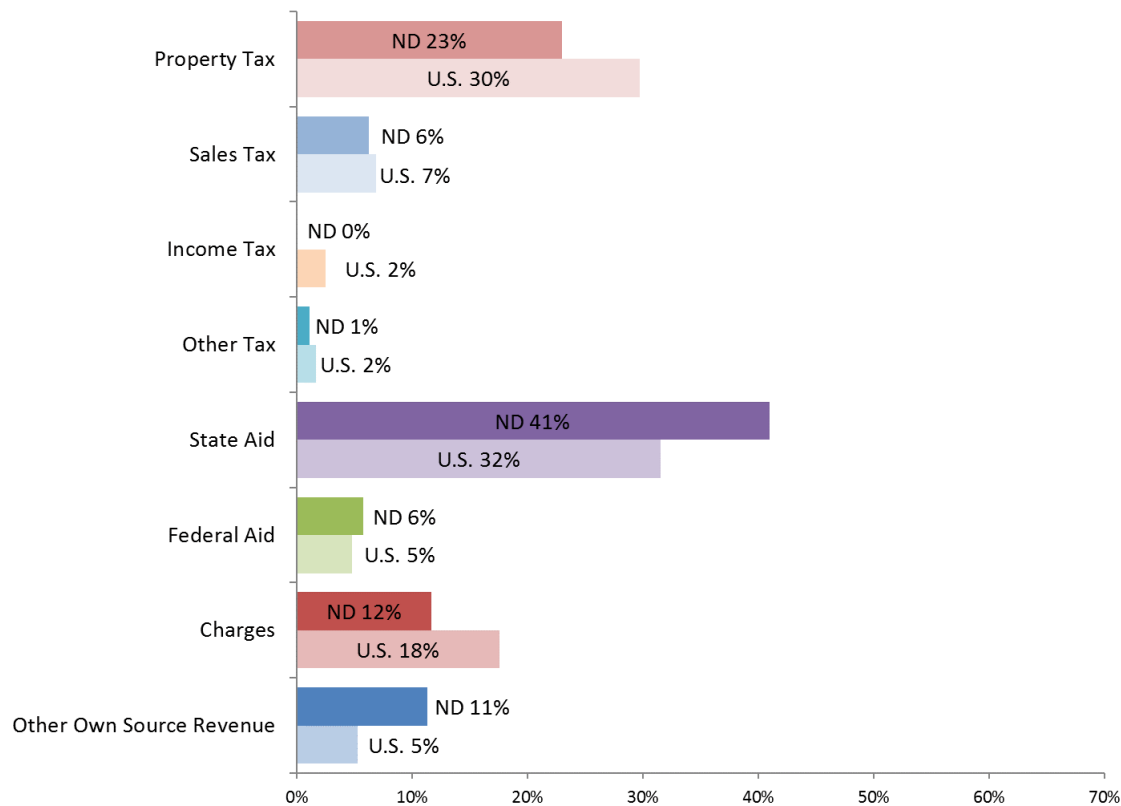
North Dakota

Highlights

North Dakota is unusual in its ability to derive revenue from severance taxes. Until the recent drop in oil prices, the state realized significant increases in two oil and gas severance taxes: a 6.5 percent extraction tax (changed to 5 percent in 2015) and a 5 percent production tax, levied as a substitute for local property taxes. Much of this revenue is used to help local governments with their finances; and as a result, North Dakota’s local governments rely heavily on state transfer payments (figure ND-1).

Historically, North Dakota relied primarily on local property taxes to fund public education, with state aid accounting for approximately 40 percent of total education funding. Today, the state of North Dakota covers nearly 80 percent of the cost of education (North Dakota Department of Public Instruction 2016).

Figure ND-1
Sources of Local General Revenue, North Dakota and U.S., 2013



Source: U.S. Census via Significant Features of the Property Tax

The state employs a system of property tax classification whereby six different classes of property have different assessment ratios ranging from 1.5 percent for certain wind turbine electric generation units to 10 percent for three different classes, including commercial property. The assessment ratio for residential property is 9 percent, so that a \$100,000 home is assessed at \$9,000.

Property Tax Reliance

Property tax as a percentage of state and local revenue was significantly lower in North Dakota than the national average and ranked 48th in 2013 (table ND-1). Despite this, the effective tax rate on the median owner-occupied home is above the U.S. average.

Table ND-1
Selected North Dakota Property Tax Statistics, 2013¹

	North Dakota	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,141	\$1,441	31
Property tax percentage of personal income	2.1%	3.2%	44
Total property tax as percentage of state-local revenue	8.1%	16.9%	48
Median owner-occupied home value ²	\$132,400	\$176,700	37
Median real estate taxes paid for owner-occupied home ²	\$1,768	\$2,107	27
Effective tax rate, median owner-occupied home ³	1.3%	1.2%	17

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2009—2013.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

All real property that is not specifically exempted is subject to a property tax. Values for most property are determined by local assessors at the city and township levels. The county administers and collects the tax and distributes the revenue to the county, cities, townships, school districts, and other taxing districts. With rare exceptions, such as personal property owned by utilities and railroads, personal property is not included in the property tax base. Business inventories are not taxed.

Some industries in the state are not assessed local property taxes, but rather pay a gross receipts tax (telecommunications) or production tax in lieu of property taxes (oil & gas production). North Dakota is one of several states that do not rely on property taxation on oil and gas production but rely on production taxes instead.

North Dakota has a classified property tax system, with six different classes that have varying assessment ratios. Wind turbines receive the lowest assessment ratios, at either 1.5 or 3 percent, followed by residential property, with no more than three units, including mobile homes, at 9 percent.

North Dakota uses a productivity-based formula for assessing agricultural lands. The computations are made by North Dakota State University and are based on the capitalized average gross return on the land.

Limits on Property Taxation

The state of North Dakota imposes property tax rate limits, excluding debt service for counties (23 mills), cities (38-40 mills), townships (18 mills), and school districts (70 mills) (table ND-2). The state also imposes a levy limit on school districts so that the property tax for the general fund may not exceed the amount for the prior year plus 12 percent. This limit excludes debt service and does not apply to the Fargo school district.

Property Tax Relief and Incentives

North Dakota has several property tax relief programs, including for those who are disabled, disabled veterans, or elderly. The state's circuit breaker program, called a Homestead Credit, is limited to those with incomes under \$42,000 who are either elderly or disabled.

The state provides several tax incentives to promote economic development, including tax increment financing for development or renewal areas.

Table ND-2
North Dakota Property Tax Features, 2013

Feature	North Dakota	Count for 50 states plus DC
Statewide Classification of Real Property	Yes	25
Assessment of property primarily by county	No	30
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

In the 1980s and 1990s, North Dakota imposed statewide limits on property tax increases. The limits were generally in the range of 2 percent to 4 percent per year.

The North Dakota Legislature has invested a significant amount of time, effort, and state money in its initiatives to reform the property tax system and lower property tax bills for North Dakotans. Legislative efforts to lower the property tax burden began in 2007. Senate Bill 2032 created a homestead income tax credit program, providing an income tax credit equal to 10 percent of property taxes paid, up to \$500 per taxpayer per year or up to \$1,000 for a married couple.

For the 2009 session, the legislature took a different approach by creating a new school district mill levy reduction grant program. The program used \$295 million from oil taxes and distributed the money through the school funding formula. The allocation of mill levy reduction grants directly reduced the amount of money a school district needed to raise locally through property taxes and required a dollar-for-dollar reduction in local taxes.

Recent Developments

In June of 2012, a constitutional amendment to eliminate the property tax in North Dakota was put to a vote of the people. Estimates of the fiscal impact were \$750 million per year (Forum of Fargo-Moorhead). More than 76 percent voted “no,” and the current property tax system was retained (Ellis and Smith 2012).

For FY2011-2013 the mill levy reduction grant program was continued, with an appropriation of \$342 million. As taxable valuations increased, so did the cost of program. The state essentially took over the cost of up to 75 mills that would have been levied by the school district if it were not for the mill levy reduction grant program.

In 2013, the mill levy reduction program was replaced with a new integrated school funding formula that incorporated both property tax relief and a new methodology for funding K-12 education. Caps were put in place to limit school district levy authority, and the state assumed a greater percentage of the cost of education. School district general fund levies were reduced from a maximum of 185 mills to a maximum of 60 mills. In addition, a new state paid property tax credit program was created through which the state paid 12 percent of the total due on all property tax bills in the state. Total property tax relief provided for the 2013-2015 biennium was over \$900 million.

For the 2015-2017 biennium, the integrated school funding formula and the 12 percent state-paid property tax credit program were continued. The cost of the property tax relief portion of the integrated formula is estimated at \$970 million; the 12 percent state-paid property tax relief program is estimated to cost \$250 million. Total property tax relief provided for the 2015-2017 biennium is estimated at over \$1.2 billion.

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