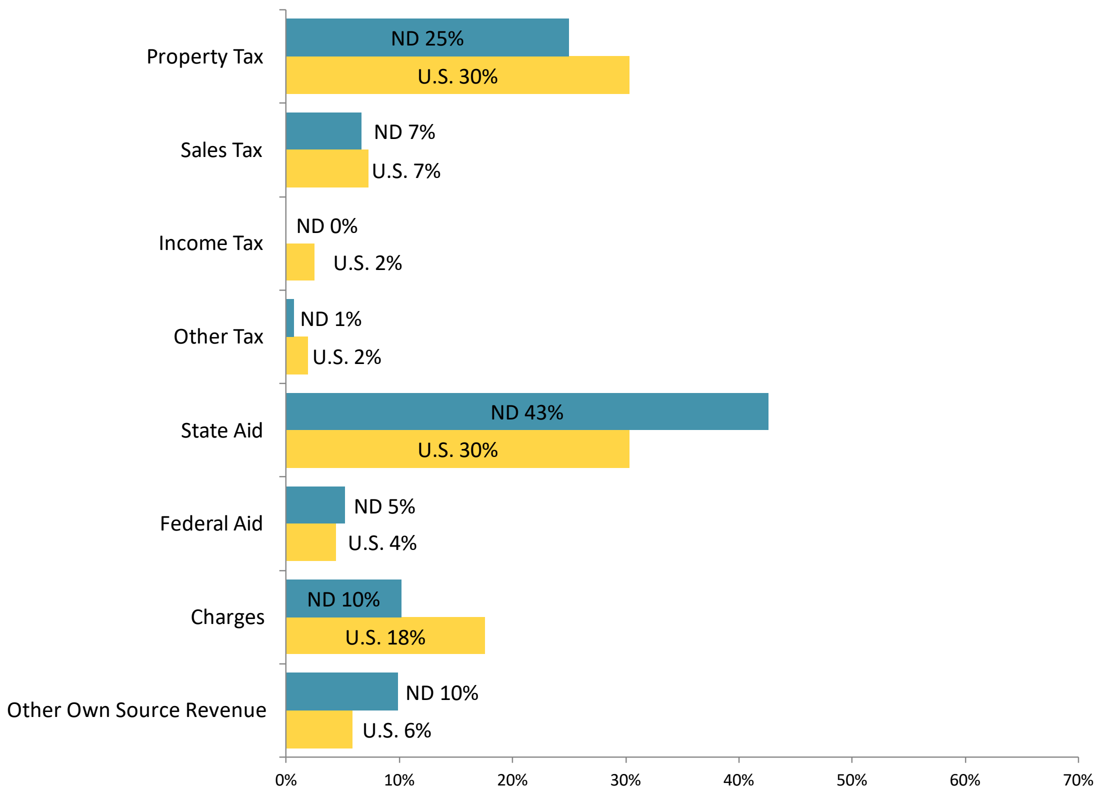
North Dakota

Highlights

North Dakota is unusual in its ability to derive revenue from severance taxes. The state's two oil and gas severance taxes—a 5 percent production tax levied as a substitute for local property taxes and a 5 percent extraction tax—comprise about half of all state tax collections. Much of this revenue is used to help local governments with their finances (Western Dakota Energy Association 2021). 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 provides 55 percent of K-12 revenue (U.S. Department of Education 2021).

Figure ND-1
Sources of Local General Revenue, North Dakota and U.S., 2020



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. In North Dakota, assessed value is 50 percent of true and full value (market value), so under the state's unusual assessing system, a home with a market value of $200,000 has an assessed value of $100,000 and a taxable value of $9,000 after applying the classification ratio.

Property Tax Reliance

Property tax as a percentage of state and local revenue was lower in North Dakota than the national average and ranked 43rd in 2019 (table ND-1). The effective tax rate on the median owner-occupied home is slightly below the U.S. average.

Table ND-1
Selected North Dakota Property Tax Statistics, 2020[1]

	North Dakota	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,538	$1,810	*31*
Property tax percentage of personal income	2.5%	3.1%	*35*
Total property tax as percentage of state-local revenue	10.1%	16.6%	*43*
Median owner-occupied home value[2]	$199,900	$229,800	*27*
Median real estate taxes paid for owner-occupied home[2]	$1,977	$2,551	*29*
Effective tax rate, median owner-occupied home[3]	1.0%	1.1%	*22*

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 2016–2020.

[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. Property is assessed at 50 percent of true and full value (market value). 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 and 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. These ratios are applied to the assessed value (50 percent of market value) to arrive at a property's taxable value.

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 for counties (60 mills), cities (105 mills), townships (18 mills), and school districts (70 mills) (table ND-2). Rate limits for all jurisdictions exclude debt service. 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.

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 the elderly or disabled whose income does not exceed $70,000. Local governments may opt to exempt up to $150,000 of the value of newly constructed improvements on homestead property for up to two years (Significant Features of the Property Tax).

The state provides several tax incentives to promote economic development, including tax increment financing for development or renewal areas and property tax exemptions within renaissance zones.

Table ND-2
North Carolina Property Tax Features, 2021

Feature	North Dakota	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	17
Circuit breaker property tax relief program	Yes	31

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.

In 1994, the North Dakota Supreme Court ruled on a school funding equity case, *Bismarck Public School District No. 1 v. State,* in which the plaintiff argued that disparities in revenue among school districts caused disparities in educational uniformity and opportunity (North Dakota Legislature 2013). Despite three out of five justices ruling that the school finance system violated the equal protection provision, the court could not rule the system unconstitutional without a supermajority (SchoolFunding.Info 2019).

A decade after the *Bismarck* decision, plaintiffs in *Williston Public School District v. State* (2006) claimed that the education finance system's widely disparate funding, inadequate educational opportunities, and unequal and inequitable tax burdens violated two provisions of the state constitution, the education and equal protection provisions (North Dakota Legislature 2013). The plaintiffs dismissed the action when the executive budget included an additional $60 million in school funding and the governor created the North Dakota Commission on Education Improvement.

North Dakota introduced a new school funding formula in 2007 that targeted aid by establishing new weighting factors for specific categories of students and for different school district sizes (North Dakota Legislature 2013). The state repealed the mill levy equalization factor and supplemental payments, but required equity payments to support districts with low taxable valuations. The formula reduced funding for districts with very low tax rates (North Dakota Legislature 2013).

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.

In 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.

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).

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.

In 2017, Governor Doug Burgum’s first State of the State address called on the legislature to move away from the 12 percent state tax credit and instead provide “long-term” property tax relief in the form of lower local government costs (North Dakota Office of the Governor 2017). During the 2017 session, the legislature eliminated the 12 percent buy down which the state had difficulty funding due to oil price declines. In its place, lawmakers enacted a less costly two-year pilot program which shifted the cost of state-mandated social services from counties to the state, suspending county authority to levy up to 20 mills for social services (Ban 2017; Hageman 2017). Separate legislation passed in 2017 allowed counties and school districts to opt out of city-authorized property tax breaks with a duration longer than five years, including TIF and renaissance zone incentives. Senate Bill 2166 also required letters of support from counties and school districts for renaissance zone creation or renewal (North Dakota League of Cities 2017).

School funding reform passed in 2019 (SB 2265) based funding on current student enrollment instead of prior year enrollment. The law increased per-pupil payments by 2 percent per year for the first two years and allowed school districts to opt for funding according to the state formula or the 2017–2018 per-pupil spending level, to be phased down to baseline aid over three years (Emerson 2019).

Recent Developments

In a case involving the valuation of apartment buildings and hotels, in 2020 the North Dakota Supreme Court ruled against the local board of commissioners and reversed a decision to deny a property tax abatement to the plaintiff (*RFM-TREI Jefferson Apartments LLC v. Stark County Board of Commissioners*).

North Dakota's high court found the Stark County Board of Commissioners "acted arbitrarily and unreasonably" in 2016 when it denied abatements for the plaintiff's two apartment complexes and two hotels for taxes based on inaccurate valuations (McLoughlin 2020). The value of the properties had declined as a result of the impact of declining oil prices on the local commercial real estate market, with no corresponding adjustment to valuations. The court affirmed that assessors' valuations of commercial properties cannot exceed market value and cited a state statute that requires correction, abatement, and refund for assessments exceeding market value (North Dakota Century Code, Section 57-23-01).

North Dakota's oil-dependent economy was battered by the Covid-19 pandemic. While more than half of states had recovered pandemic-related revenue losses by February 2021, North Dakota was among the 18 states continuing to experience revenue losses. Tax collections were still down 10.9 percent by February 2021 (Rosewicz, Theal, and Fall 2021). In September 2020, amid its second Covid-19 wave, 80 percent of the state's oil rigs were not operating. Months of low oil prices, including a drop into negative territory in the spring of 2020, ravaged production (Romm 2020). In a special legislative session in November 2021, North Dakota lawmakers appropriated about $1 billion from the state's State Fiscal Recovery Fund to offset these revenue losses. The state calculated an inflation-adjusted revenue loss of 1.8 billion in fiscal year 2021 (State of North Dakota 2022). Oil prices rebounded in 2022 (Crane 2022). By the end of 2022, all of North Dakota's major state revenue sources showed strong growth with total state revenues up 30 percent in the last half of 2022 compared to the same period in 2021 (Dadayan 2023).

North Dakota Governor Doug Burgum signed a historic tax relief package (House Bill 1158) in April 2023, providing $515 million in income and property tax relief for the 2023–2025 biennium. The property tax relief totals $157 million: $103.2 million will be available to homeowners to claim a property tax credit of up to $500 on their primary residence and $53.5 million funds an expansion of the state's Homestead Property Tax Credit program for homeowners 65 and older and the disabled. The governor noted that this property tax relief package is in addition to $1.5 billion in property tax relief the state already provides to localities (North Dakota Office of the Governor 2023).

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