State and Local Taxes

An Overview and Comparative Guide
2008

Cory Fong
Tax Commissioner

Greetings from North Dakota's Tax Commissioner

Dear Friend,

Cory Fong,
Tax Commissioner

I am pleased to provide you with the 2008 Edition of North Dakota State and Local Taxes: An Overview and Comparative Guide (a.k.a. The Red Book).

North Dakota's economy is on the move! We are experiencing record growth in all major sectors of our economy. And, it's easy to see why. Through the vision, leadership, and commitment of state and local officials and industry leaders, North Dakota has created a progressive and business-friendly environment that is leading the way to an expanded, more diversified economy. This is evidenced by new developments in value added agricultural processing, bio-fuels, wind energy, clean coal technologies, enhanced oil recovery, advanced manufacturing, new research and development, and technology-based businesses that are cropping up across North Dakota.

The Office of State Tax Commissioner is playing a meaningful role in this effort. By reaching out and forging stronger working relationships with other government agencies and private industry, the department is providing essential education about North Dakota's tax climate and promoting a better understanding of existing tax incentives and the important role they play in growing our economy. This publication has long been a source for this kind of tax information. The Red Book is designed for anyone who wants to learn more about North Dakota's taxes. It brings together the tax laws, a historical perspective of those taxes, and combines the latest data with comparisons and rankings with other states.

I am always interested in hearing from you. Please feel free to share with me your suggestions and input concerning North Dakota taxes and our department.

Sincerely,

Cory Fong

Cory Fong
Tax Commissioner

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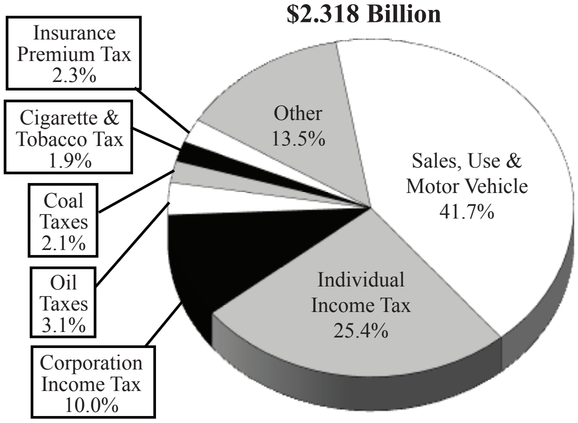
REVENUE OVERVIEW

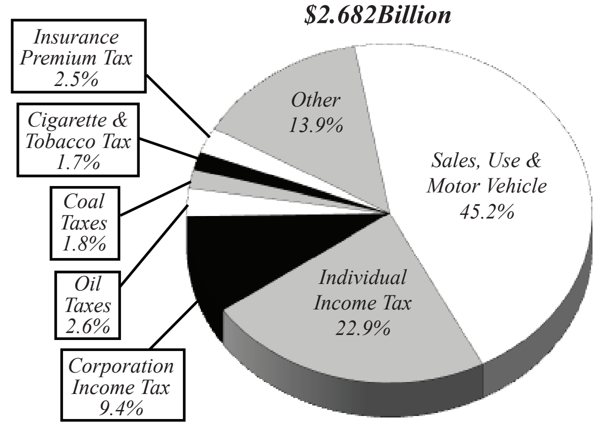
This chapter contains historical comparisons of North Dakota revenue. General fund information is given, as well as trends in collections.

Comparison of Revenue Sources
Percent of Total
State General Fund

2005-07 BIENNIUM
$2.318 Billion

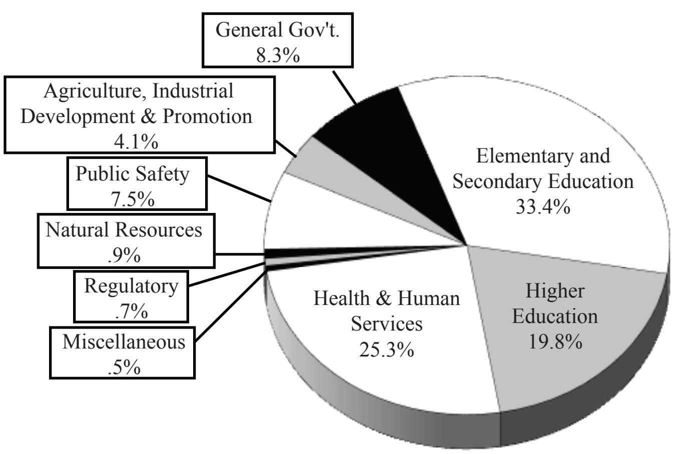


(PROJECTED)
2007-09 BIENNIUM
$2.682Billion

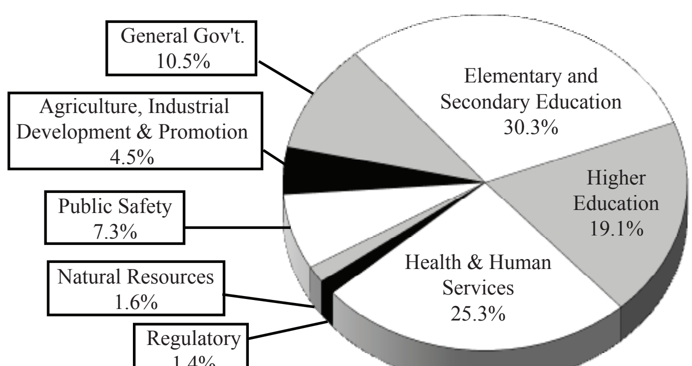


Comparison of Expenditures
Percent of Total
State General Fund

2005-07 General Fund Expenditures By Program
Total = $1.971 Billion



2007-09 General Fund Appropriations (1)
Total = $2.457 Billion



(1) This is the amount appropriated by the 2007 Legislative Assembly. Actual expenditures will vary from appropriated levels.

SOURCE: Office of Management and Budget.

State General Fund Budget by Revenue Sources

1997-99 through 2007-09 Biennia (in Millions)

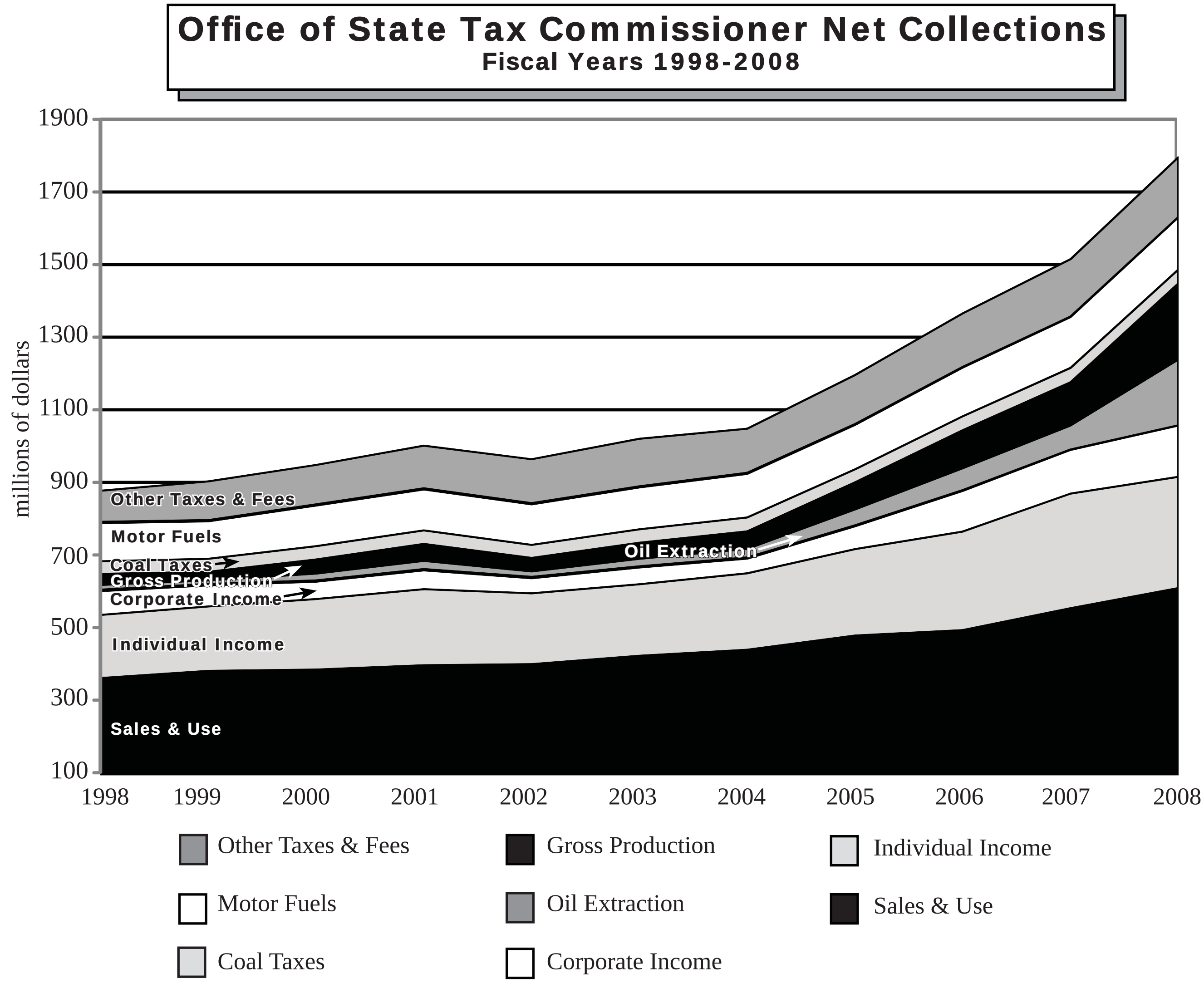
REVENUE SOURCES	Biennium Revenues					*Projected 2007-09 Biennium**
	1997-99	1999-01	2001-03	2003-05	2005-07	
INTEREST, MINERAL LEASES, TRANSFERS						
- Interest Income	19.014	20.832	8.509	6.935	36.507	42.367
- Mineral Leasing Fees	7.258	9.532	6.441	11.025	13.960	21.537
- Bank of ND Profits Transfer	29.600	50.000	78.700	60.000	60.000	60.000
- State Mill Profits Transfer	3.000	3.000	6.000	5.000	5.000	0.000
- Gas Tax Administration Transfer	1.129	1.381	1.363	1.396	1.274	1.274
- Budget Stabilization Fund Transfer						
- State Aid Distribution Fund Transfer (1)	28.017					
- Other Transfers	8.697	5.159	24.370	91.412	88.436	133.100
SALES, USE AND MOTOR VEHICLE	664.365	722.182	760.211	845.768	967.653	1,211.012
INDIVIDUAL INCOME TAX	358.288	409.331	396.153	452.547	587.659	614.538
CORPORATION INCOME TAX	123.420	99.135	88.417	102.927	232.294	252.904
OIL TAXES	43.677	62.000	62.000	71.000	71.000	71.000
COAL TAXES	46.383	47.846	46.879	47.197	49.218	47.465
CIGARETTE AND TOBACCO TAXES	44.091	41.706	39.313	39.477	44.683	44.906
INSURANCE PREMIUM TAX	33.133	39.113	48.990	56.285	52.873	66.591
WHOLESALE LIQUOR TAX	11.140	10.322	11.156	11.889	12.788	13.735
BUSINESS PRIVILEGE TAX/ FINANCIAL INSTITUTIONS TAX	6.494	5.465	6.257	4.959	9.702	10.261
GAMING TAXES	22.802	27.438	27.613	20.851	17.986	20.284
LOTTERY				7.269	12.600	11.155
DEPARTMENTAL FEES & COLLECTIONS	32.997	40.816	57.506	61.005	54.024	59.769
OTHER (2)				56.457		
TOTAL GENERAL FUND REVENUES	**1,483.505**	**1,595.258**	**1,669.878**	**1,953.398**	**2,317.659**	**2,681.899**
BEGINNING BALANCE	65.000	61.114	62.241	14.790	68.015	295.541
REVENUES AND BEGINNING BALANCE	1,548.505	1,656.372	1,732.119	1,968.188	2,385.674	2,977.440
FUNDS RELATED TO PRIOR BIENNIUM CARRY-OVER AND ADJUSTMENTS	8.172	10.155	13.996	0	0	0
REVENUE AVAILABLE DURING BIENNIUM	1,556.677	1,666.527	1,746.115	1,968.188	2,385.674	2,977.440
GENERAL FUND EXPENDITURES	1,485.463	1,592.975	1,723.561	1,798.211	1,971.375	2,461.974
TRANSFER TO BUDGET STABILIZATION FUND				99.473	100.527	(3)
OBLIGATIONS CARRIED OVER TO FUTURE PERIODS	7.275	11.311	7.764	2.489	18.231	
UNOBLIGATED ENDING BALANCE	**61.114**	**62.241**	**14.790**	**68.015**	**295.541**	**515.466** (3)

* Based on the November 2008 revised forecast.

(1) A portion of sales, use and motor vehicle excise taxes is deposited in the State Aid Distribution Fund (S.A.D.F.) and that revenue is not included in this table. As of January 1, 1999, the portion is 40% x 1% ÷ general sales tax rate. However, during the two biennia shown, the legislature transferred funds from the S.A.D.F. to the General Fund as shown in the table.

(2) Federal Fiscal Relief payments deposited in the General Fund.

(3) N.D.C.C. § 54-27.2-02 provides that any end of biennium balance in excess of $65.0 million must be transferred to the budget stabilization fund, up to a cap of 10.0% of appropriations. The current balance is $200.0 million. Depending upon the level of appropriations authorized by the 2009 legislature, 2007-09 transfer will likely exceed $50.0 million

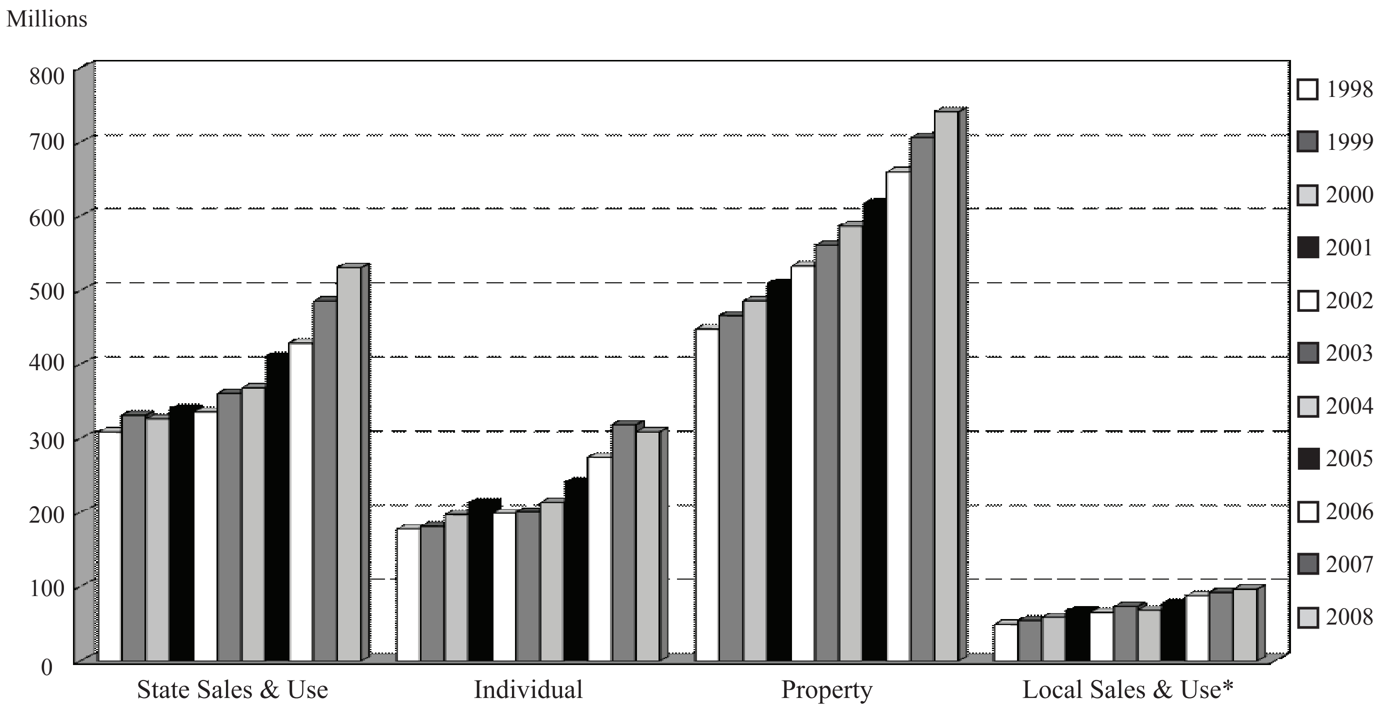


Tax Type	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales & Use	363.2	383.2	386.6	398.6	401.6	424.9	441.4	480.6	495.6	556.0	611.6
Ind. Income	177.9	181.4	198.3	213.4	198.9	200.5	214.1	241.3	274.6	318.4	308.9
Corp. Income	65.5	57.9	47.5	51.6	41.6	46.0	40.3	62.7	111.8	120.0	140.7
Oil Extraction	15.3	12.1	21.0	24.8	17.1	22.6	25.6	45.6	61.8	67.2	182.4
Gross Production	29.5	22.7	38.0	46.0	36.5	43.5	47.5	74.0	104.4	118.8	209.4
Coal Taxes	37.3	38.3	39.0	39.5	38.2	39.4	40.6	37.7	39.8	40.9	39.0
Motor Fuels	105.1	103.1	111.8	112.7	111.7	115.3	119.9	122.2	134.1	140.0	144.0
Other Taxes & Fees	86.0	106.9	108.9	117.7	121.3	131.2	121.9	135.5	148.0	158.5	165.3
Total Net Collections*	879.8	905.4	951.1	1004.3	966.9	1023.4	1051.3	1199.7	1370.0	1,519.8	1,801.3

*Totals may not sum due to rounding

SOURCE: Office of State Tax Commissioner

Source of Major State and Local Taxes
1998-2008



Major State Sources **Major Local Sources**

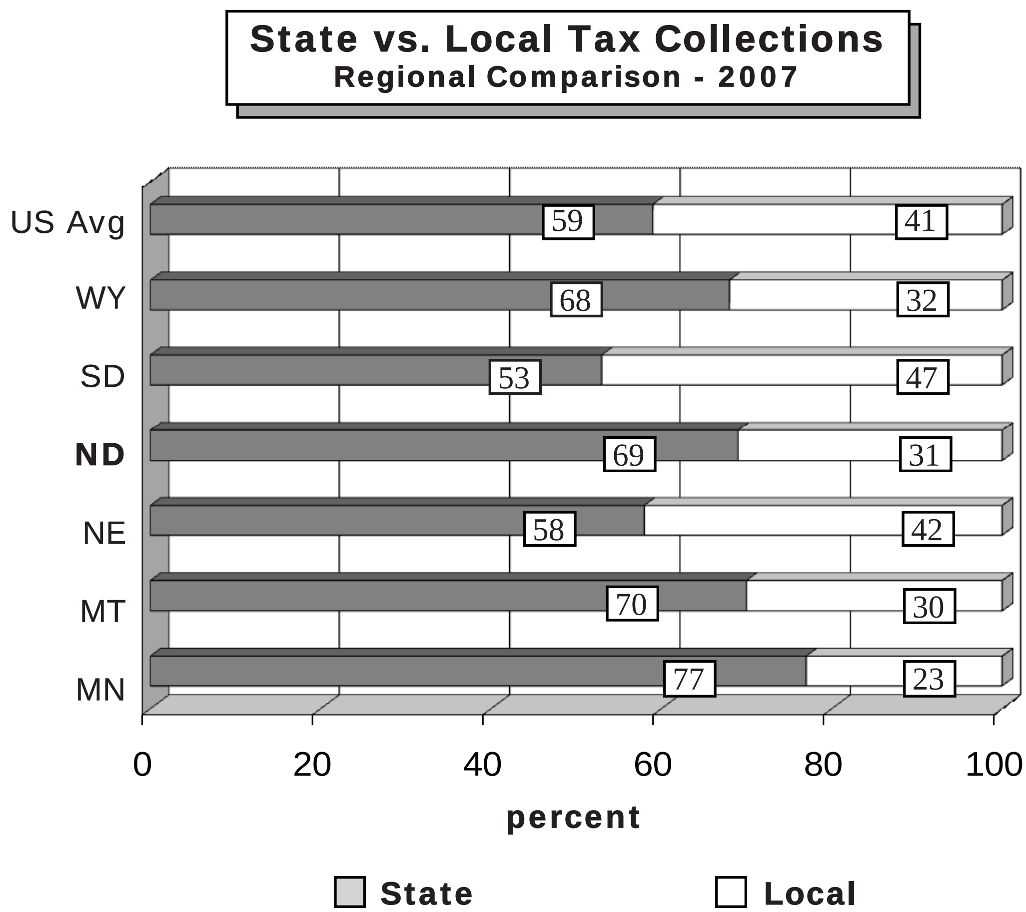
Fiscal Year	State Sales & Use Tax	Individual Income Tax	Property Tax	Local Sales & Use Tax*
1998	308,636,871	177,904,251	447,582,274	48,929,646
1999	331,027,859	181,389,034	465,203,396	54, 058,001
2000	326,261,978	197,101,325	486,194,264	58,711,263
2001	340,114,569	213,442,150	509,032,721	66,961,363
2002	335,598,693	198,922,525	532,629,675	65,368,838
2003	360,908,220	200,528,205	560,751,909	73,666,551
2004	368,323,637	214,145,899	586,412,017	68,644,864
2005	411,553,514	241,319,731	618,065,693	78,761,154
2006	428,906,406	274,621,741	659,789,376	87,563,544
2007	485,986,114	318,433,494	706,427,621	92,143,032
2008	530,283,623	308,889,352	740,540,738	96,566,720

* The local sales tax figures do not include city occupancy or city restaurant and lodging taxes.

SOURCE: Office of State Tax Commissioner.

STATE COMPARISONS

This chapter provides a comparison of overall tax levels between the states.* There are a variety of ways to rank and compare state taxes. We have used a number of different sources to give you a broad range of research. Each measurement provides insights, but also has limitations. Please contact the Office of State Tax Commissioner for more information about the various measurements.



SOURCE: State Government Tax Collections: 2007 www.census.gov/govs/statetax

* *The rankings of specific types of taxes are found throughout this publication. Those comparisons are located within the chapter relating to that particular type of tax.*

Comparing the 50 States' Combined State/Local Tax Burdens in 2007
(Measuring Taxes as a Percentage of Income)

Each state's total tax burden (taxes as a percentage of income) is a combination of federal, state, and local tax burdens. It can be instructive to strip out federal taxes and compare just the state and local tax burdens. Generally, high-income states rise because, with their high costs of living and commensurately higher salaries, they are hit harder by the progressive federal income tax. Low-income states that have high state-local tax burdens fall in the ranking when federal taxes are added in.

	State and Local			Total		Change in Ranking After Adding Federal Taxes
	Tax Burden	Rank		Tax Burden	Rank	
Vermont	14.1%	1	Vermont	35.1%	5	4
Maine	14.0%	2	Maine	33.9%	10	8
New York	13.8%	3	New York	37.1%	2	-1
Rhode Island	12.7%	4	Rhode Island	35.1%	6	2
Ohio	12.4%	5	Ohio	32.4%	18	13
Hawaii	12.4%	6	Hawaii	33.0%	16	10
Wisconsin	12.3%	7	Wisconsin	33.3%	13	6
Connecticut	12.2%	8	Connecticut	38.3%	1	-7
Nebraska	11.9%	9	Nebraska	31.8%	22	13
New Jersey	11.6%	10	New Jersey	35.6%	3	-7
Minnesota	11.5%	11	Minnesota	33.9%	11	0
California	11.5%	12	California	34.3%	8	-4
Arkansas	11.3%	13	Arkansas	30.7%	32	19
Michigan	11.2%	14	Michigan	31.9%	21	7
Kansas	11.2%	15	Kansas	31.0%	27	12
Washington	11.1%	16	Washington	34.0%	9	-7
Louisiana	11.0%	17	Louisiana	29.1%	44	27
Iowa	11.0%	18	Iowa	30.6%	33	15
North Carolina	11.0%	19	North Carolina	31.3%	24	5
Kentucky	10.9%	20	Kentucky	30.4%	34	14
West Virginia	10.9%	21	West Virginia	29.8%	40	19
Illinois	10.8%	22	Illinois	33.2%	14	-8
Maryland	10.8%	23	Maryland	33.1%	15	-8
Pennsylvania	10.8%	24	Pennsylvania	31.9%	20	-4
Indiana	10.7%	25	Indiana	30.8%	30	5
South Carolina	10.7%	26	South Carolina	30.3%	35	9
Utah	10.7%	27	Utah	30.3%	36	9
Massachusetts	10.6%	28	Massachusetts	34.4%	7	-21
Mississippi	10.5%	29	Mississippi	28.1%	47	18
Colorado	10.4%	30	Colorado	31.8%	23	-7
Arizona	10.3%	31	Arizona	31.3%	25	-6
Georgia	10.3%	32	Georgia	30.9%	28	-4
Virginia	10.2%	33	Virginia	32.9%	17	-16
Missouri	10.1%	34	Missouri	30.2%	38	4
Idaho	10.1%	35	Idaho	29.6%	42	7
Nevada	10.1%	36	Nevada	35.2%	4	-32
Oregon	10.0%	37	Oregon	30.7%	31	-6
Florida	10.0%	38	Florida	33.6%	12	-26
NORTH DAKOTA	**9.9%**	**39**	**NORTH DAKOTA**	**30.2%**	**37**	**-2**
New Mexico	9.8%	40	New Mexico	28.8%	45	5
Montana	9.7%	41	Montana	29.8%	39	-2
Wyoming	9.5%	42	Wyoming	32.1%	19	-23
Texas	9.3%	43	Texas	29.8%	41	-2
South Dakota	9.0%	44	South Dakota	29.3%	43	-1
Oklahoma	9.0%	45	Oklahoma	27.8%	50	5
Alabama	8.8%	46	Alabama	28.0%	49	3
Delaware	8.8%	47	Delaware	31.2%	26	-21
Tennessee	8.5%	48	Tennessee	28.8%	46	-2
New Hampshire	8.0%	49	New Hampshire	30.8%	29	-20
Alaska	6.6%	50	Alaska	28.1%	48	-2
District of Columbia	12.5%	-	District of Columbia	36.4%	-	-
U.S. Average	11.0%		U.S. Average	32.7%		

Source: Bureau of Economic Analysis & Tax Foundation Calculations

Taxes Per Capita and as a Percent of Income, Calendar Year 2007, by State

	Per Capita Total Taxes	Per Capita Federal Taxes	Per Capita State/Local Taxes	Per Capita Income	Total Taxes as % of Income	Federal Taxes as % of Income	State/Local Taxes as % of Income	Total Taxes as % of Income Rank	State & Local Taxes as % of Income Rank
United States	$12,626	$8,379	$4,247	$38,611	32.7	21.7	11.0	-	-
Alabama	9,073	6,222	2,852	32,404	28.0	19.2	8.8	49	46
Alaska	11,339	8,676	2,663	40,352	28.1	21.5	6.6	47	50
Arizona	10,338	6,936	3,402	33,029	31.3	21.0	10.3	24	31
Arkansas	9,228	5,832	3,397	30,060	30.7	19.4	11.3	31	13
California	14,259	9,478	4,781	41,571	34.3	22.8	11.5	8	11
Colorado	13,051	8,783	4,268	41,042	31.8	21.4	10.4	22	30
Connecticut	20,727	14,125	6,602	54,117	38.3	26.1	12.2	1	8
Delaware	12,670	9,096	3,574	40,608	31.2	22.4	8.8	26	47
Florida	12,917	9,073	3,844	38,444	33.6	23.6	10.0	12	37
Georgia	10,338	6,892	3,446	33,457	30.9	20.6	10.3	28	32
Hawaii	12,949	8,083	4,866	39,239	33.0	20.6	12.4	16	5
Idaho	9,234	6,083	3,151	31,197	29.6	19.5	10.1	42	34
Illinois	13,387	9,032	4,355	40,322	33.2	22.4	10.8	14	22
Indiana	10,354	6,757	3,597	33,616	30.8	20.1	10.7	29	25
Iowa	10,717	6,865	3,853	35,023	30.6	19.6	11.0	33	17
Kansas	11,398	7,280	4,118	36,768	31.0	19.8	11.2	27	14
Kentucky	9,458	6,067	3,391	31,111	30.4	19.5	10.9	34	20
Louisiana	10,114	6,291	3,823	34,756	29.1	18.1	11.0	44	18
Maine	11,432	6,711	4,721	33,722	33.9	19.9	14.0	10	2
Maryland	15,233	10,263	4,970	46,021	33.1	22.3	10.8	15	23
Massachusetts	16,884	11,682	5,203	49,082	34.4	23.8	10.6	7	28
Michigan	11,192	7,263	3,930	35,086	31.9	20.7	11.2	20	15
Minnesota	13,911	9,192	4,719	41,034	33.9	22.4	11.5	11	12
Mississippi	8,105	5,077	3,029	28,845	28.1	17.6	10.5	48	29
Missouri	10,385	6,912	3,473	34,389	30.2	20.1	10.1	37	35
Montana	9,672	6,524	3,148	32,458	29.8	20.1	9.7	39	41
Nebraska	11,598	7,258	4,340	36,471	31.8	19.9	11.9	23	9
Nevada	14,249	10,160	4,088	40,480	35.2	25.1	10.1	4	36
New Hampshire	12,786	9,465	3,321	41,512	30.8	22.8	8.0	30	49
New Jersey	17,513	11,807	5,707	49,194	35.6	24.0	11.6	3	10
New Mexico	9,065	5,980	3,084	31,474	28.8	19.0	9.8	45	40
New York	17,580	11,041	6,539	47,385	37.1	23.3	13.8	2	3
North Carolina	10,528	6,828	3,700	33,636	31.3	20.3	11.0	25	19
NORTH DAKOTA	**10,523**	**7,074**	**3,450**	**34,846**	**30.2**	**20.3**	**9.9**	**38**	**39**
Ohio	11,299	6,975	4,324	34,874	32.4	20.0	12.4	18	6
Oklahoma	9,495	6,421	3,074	34,153	27.8	18.8	9.0	50	44
Oregon	10,679	7,200	3,478	34,784	30.7	20.7	10.0	32	38
Pennsylvania	12,373	8,184	4,189	38,788	31.9	21.1	10.8	21	24
Rhode Island	13,852	8,840	5,012	39,463	35.1	22.4	12.7	5	4
South Carolina	9,397	6,079	3,318	31,013	30.3	19.6	10.7	35	26
South Dakota	9,934	6,883	3,051	33,905	29.3	20.3	9.0	43	45
Tennessee	9,585	6,756	2,829	33,280	28.8	20.3	8.5	46	48
Texas	11,082	7,623	3,458	37,187	29.8	20.5	9.3	40	43
Utah	9,450	6,113	3,337	31,189	30.3	19.6	10.7	36	27
Vermont	12,871	7,701	5,170	36,670	35.1	21.0	14.1	6	1
Virginia	13,603	9,386	4,217	41,347	32.9	22.7	10.2	17	33
Washington	13,741	9,255	4,486	40,414	34.0	22.9	11.1	9	16
West Virginia	8,802	5,582	3,220	29,537	29.8	18.9	10.9	41	21
Wisconsin	12,004	7,570	4,434	36,047	33.3	21.0	12.3	13	7
Wyoming	13,876	9,769	4,106	43,226	32.1	22.6	9.5	19	42
Dist. of Columbia	22,237	14,601	7,637	61,092	36.4	23.9	12.5	-	-

SOURCE: State Government Tax Collections: 2007, www.census.gov/govs/statetax, US Dept. of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, www.bea.gov/regional and Tax Foundation

Estimated Burden of Major State & Local Taxes for a Family of Three - 2007

$25,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$87	$332	$0	$0	$0	$0
Property[1]	$1,786	$1,786	$1,786	$1,786	$1,786	$1,786
Sales	$551	$0	$664	$867	$846	$712
Auto	$201	$285	$223	$180	$215	$283
Total	$2,625	$2,403	$2,673	$2,833	$2,847	$2,781
% of Income	10.5%	9.6%	10.7%	11.3%	11.4%	11.1%
National rank*	43	48	37	29	28	31

$50,000 Gross Family Income

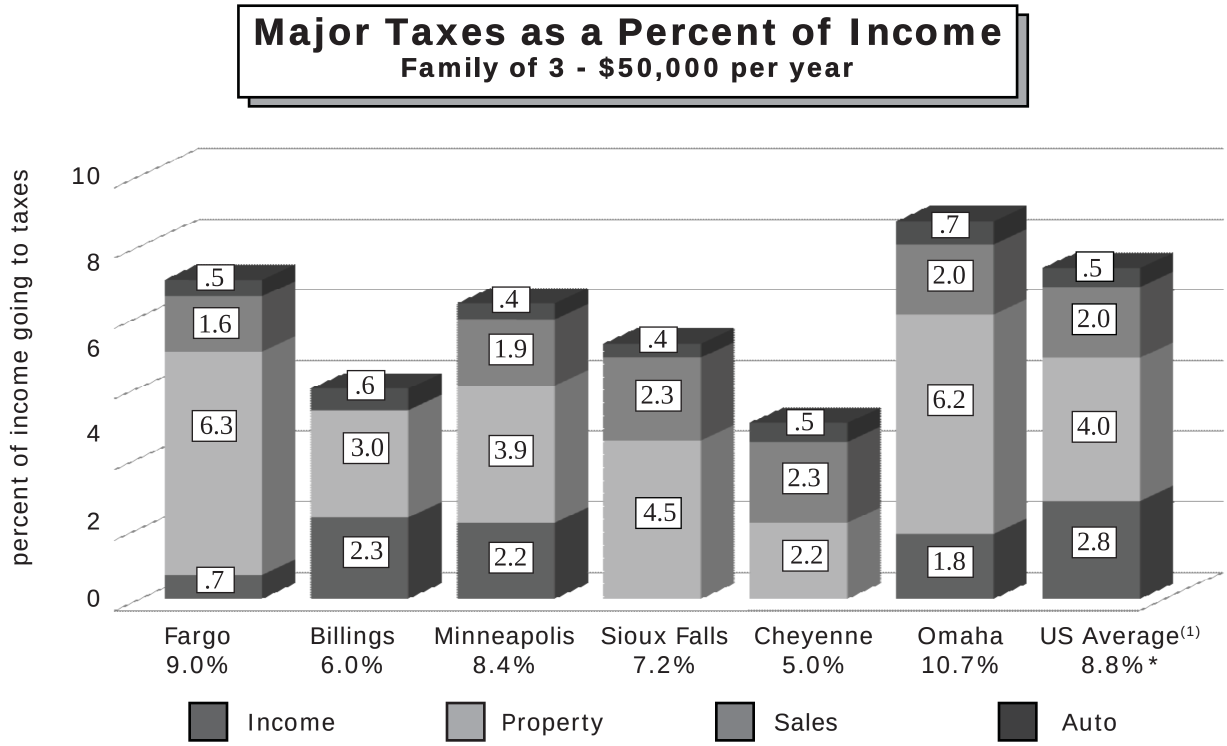
Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$346	$1,156	$1,080	$0	$0	$924
Property	$3,162	$1,519	$1,947	$2,248	$1,080	$3,107
Sales	$780	$0	$934	$1,176	$1,146	$993
Auto	$237	$309	$227	$196	$269	$335
Total	$4,525	$2,984	$4,188	$3,620	$2,495	$5,359
% of Income	9.0%	6.0%	8.4%	7.2%	5.0%	10.7%
National rank*	21	46	31	38	49	10

$100,000 Gross Family Income

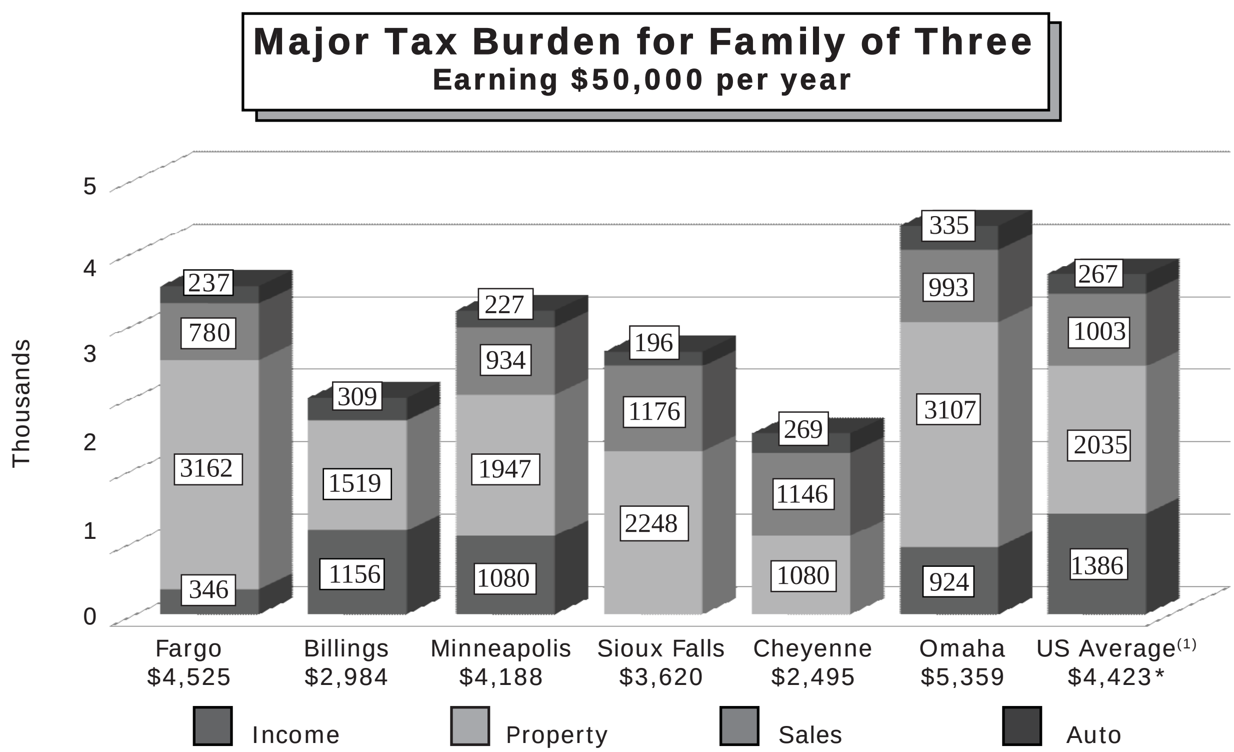
Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$1,443	$4,070	$4,327	$0	$0	$3,579
Property	$4,685	$2,252	$2,918	$3,331	$1,601	$4,562
Sales	$1,431	$0	$1,750	$2,074	$2,092	$1,886
Auto	$433	$970	$437	$371	$891	$880
Total	$7,992	$7,292	$9,432	$5,776	$4,584	$10,904
% of Income	8.0%	7.3%	9.4%	5.8%	4.6%	10.9%
National rank*	36	40	23	45	50	22

[1] Based on 20 percent of estimated annual rent
* Based on all 50 states and the District of Columbia.

SOURCE: Tax Rates and Tax Burdens In the District of Columbia - A Nationwide Comparison 2007, Government of the District of Columbia.



SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2007, Government of the District of Columbia



* Amounts may not add due to rounding.
(1) Based on cities actually levying tax

SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2007, Government of the District of Columbia

State Taxes by Source - Fiscal Year 2007

	General Sales & Use	Individual Income	Corporate Income	Motor Fuels	Licenses	All Other
Alabama	25.7 %	34.1 %	5.7 %	6.4 %	5.4 %	22.8 %
Alaska	--	--	23.6	1.1	3.7	71.5
Arizona	45.9	25.8	8.0	6.2	3.3	11.0
Arkansas	39.3	29.3	4.9	6.3	4.0	16.2
California	28.5	46.5	9.7	3.0	6.5	5.8
Colorado	24.1	52.1	5.2	7.2	3.7	7.7
Connecticut	23.6	49.3	6.4	3.4	2.8	14.4
Delaware	--	35.3	10.4	4.0	34.6	15.6
Florida	60.9	--	6.8	6.5	5.3	20.6
Georgia	34.2	47.2	5.5	5.8	2.7	4.6
Hawaii	50.2	30.6	2.0	1.8	3.1	12.4
Idaho	36.1	39.8	5.3	6.6	7.5	4.8
Illinois	26.5	31.9	10.0	4.9	8.3	18.5
Indiana	38.5	32.7	7.0	6.3	4.2	11.4
Iowa	27.6	41.2	5.0	6.9	9.5	9.7
Kansas	32.5	39.8	7.7	6.3	4.4	9.4
Kentucky	28.5	30.7	10.0	5.8	4.6	20.4
Louisiana	32.1	29.6	6.9	5.7	5.2	20.5
Maine	29.5	37.9	5.1	6.5	6.4	14.7
Maryland	22.8	44.3	5.2	5.2	4.8	17.8
Massachusetts	19.7	55.2	10.2	3.3	3.3	8.4
Michigan	33.5	27.0	7.5	4.3	5.8	21.9
Minnesota	25.1	40.7	6.7	3.6	5.5	18.4
Mississippi	49.4	21.9	5.8	7.0	6.2	9.8
Missouri	30.6	45.2	3.7	6.9	5.9	7.8
Montana	--	35.9	7.7	9.1	13.3	34.0
Nebraska	36.5	40.6	5.2	7.9	5.1	4.8
Nevada	51.0	--	--	5.2	12.7	31.1
New Hampshire	33.8	4.9	27.4	5.9	9.6	18.3
New Jersey	28.7	39.7	9.9	1.9	5.2	14.7
New Mexico	35.4	22.1	8.2	4.7	4.6	25.1
New York	17.2	54.8	8.6	0.8	2.1	16.5
North Carolina	23.0	46.8	6.9	7.1	5.9	10.2
NORTH DAKOTA	**27.2**	**17.8**	**7.7**	**7.8**	**7.2**	**32.5**
Ohio	31.4	40.4	5.3	6.9	8.6	7.4
Oklahoma	22.0	38.3	6.3	4.5	10.7	18.2
Oregon	--	72.3	5.2	5.4	10.8	6.3
Pennsylvania	28.1	31.8	7.4	7.0	9.2	16.5
Rhode Island	31.7	39.3	6.5	4.8	3.4	14.5
South Carolina	37.2	37.3	3.6	6.1	5.4	10.4
South Dakota	56.6	--	6.1	9.8	12.5	15.0
Tennessee	59.6	2.0	9.9	7.6	11.1	9.9
Texas	50.7	--	--	7.6	14.2	27.5
Utah	33.2	43.5	6.8	6.5	3.4	6.6
Vermont	13.1	22.7	3.3	3.4	4.6	53.0
Virginia	18.7	54.0	6.8	4.8	3.6	12.2
Washington	61.4	--	--	6.4	5.0	27.3
West Virginia	24.3	29.2	11.6	7.6	3.9	24.0
Wisconsin	28.7	43.7	6.4	6.9	5.9	8.4
Wyoming	34.5	--	--	3.6	6.2	55.7
U.S. Total	31.5 %	35.4 %	7.1 %	4.9 %	6.3 %	14.8 %

SOURCE: State Government Tax Collections: 2007, www.census.gov/govs/statetax,
US Dept. of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, www.bea.gov/regional

Total State Tax Collections Per Capita - Fiscal Year 2007

Rank	State	Per Capita Total State Tax Collections
1	Vermont	$5,041
2	Colorado	$4,120
3	California	$3,970
4	South Dakota	$3,872
5	Delaware	$3,669
6	Kansas	$3,421
7	New Jersey	$3,359
8	Idaho	$3,351
9	Illinois	$3,273
10	Lousiana	$3,204
11	Connecticut	$3,139
12	Utah	$2,786
13	Missouri	$2,735
14	Wisconsin	$2,720
15	West Virginia	$2,687
16	Kentucky	$2,642
17	Oregon	$2,614
18	Wyoming	$2,607
19	New Hampshire	$2,585
20	Texas	$2,569
21	Arkansas	$2,531
22	Nebraska	$2,496
23	New Mexico	$2,483
24	Ohio	$2,480
25	Mississippi	$2,462
26	Tennessee	$2,460
27	Montana	$2,458
28	Virginia	$2,422
29	North Carolina	$2,368
30	**NORTH DAKOTA**	$2,359
31	Rhode Island	$2,333
32	Washington	$2,296
33	Nevada	$2,294
34	Alabama	$2,227
35	Maine	$2,222
36	Pennsylvania	$2,191
37	Maryland	$2,165
38	Indiana	$2,164
39	Iowa	$2,066
40	South Carolina	$1,971
41	New York	$1,958
42	Hawaii	$1,956
43	Massachusetts	$1,953
44	Alaska	$1,916
45	Minnesota	$1,893
46	Arizona	$1,843
47	Oklahoma	$1,821
48	Georgia	$1,687
49	Michigan	$1,653
50	Florida	$1,579
	US Average	$2,488

SOURCE: US Department of Commerce, Census Bureau.

Total State Taxes Except Severance Taxes Per Capita - Fiscal Year 2007

Rank	State	Total Tax Less Severance Tax
1	Tennessee	$4,120
2	Maine	$3,970
3	New York	$3,669
4	Idaho	$3,414
5	Massachusetts	$3,359
6	New Mexico	$3,351
7	Utah	$3,273
8	West Virginia	$3,204
9	Delaware	$3,139
10	Alaska	$2,728
11	Kansas	$2,720
12	Nevada	$2,687
13	South Carolina	$2,614
14	Minnesota	$2,600
15	South Dakota	$2,584
16	**NORTH DAKOTA**	$2,495
17	Oregon	$2,480
18	Missouri	$2,460
19	North Carolina	$2,436
20	Kentucky	$2,434
21	New Hampshire	$2,387
22	Michigan	$2,360
23	Maryland	$2,355
24	Texas	$2,335
25	Virginia	$2,320
26	Rhode Island	$2,296
27	Nebraska	$2,292
28	Pennsylvania	$2,268
29	Arkansas	$2,222
30	Oklahoma	$2,214
31	Mississippi	$2,202
32	Colorado	$2,188
33	Iowa	$2,174
34	Wisconsin	$2,165
35	Ohio	$2,163
36	Wyoming	$2,163
37	Illinois	$2,145
38	Montana	$2,063
39	Florida	$1,971
40	California	$1,956
41	Washington	$1,953
42	Connecticut	$1,949
43	Vermont	$1,885
44	New Jersey	$1,865
45	Arizona	$1,842
46	Louisiana	$1,821
47	Hawaii	$1,796
48	Indiana	$1,653
49	Georgia	$1,573
50	Alabama	$1,571
	US Average	$2,452

SOURCE: US Department of Commerce, Census Bureau.

Tax Freedom Day 2008, by State

State	Tax Freedom Day	Rank	Average number of days spent working to pay: Total Taxes	Federal Taxes	State/ Local Taxes
Connecticut	May 8	1	132	90	42
New Jersey	May 7	2	129	93	36
New York	May 5	3	125	90	35
California	April 30	4	120	80	40
Washington	April 29	5	119	85	34
Massachusetts	April 28	6	118	85	33
Maryland	April 28	7	118	85	33
Minnesota	April 27	8	117	84	33
Florida	April 26	9	116	83	33
Hawaii	April 26	10	116	83	33
Nevada	April 26	11	116	83	33
Virginia	April 25	12	115	83	32
Rhode Island	April 24	13	114	82	32
Wisconsin	April 24	14	114	82	32
Colorado	April 23	15	113	76	37
Illinois	April 23	16	113	81	32
Utah	April 21	17	111	80	31
Pennsylvania	April 21	18	111	80	31
Idaho	April 20	19	110	79	31
Arizona	April 20	20	110	74	36
Wyoming	April 20	21	110	79	31
Maine	April 20	22	110	79	31
Georgia	April 19	23	109	78	31
Vermont	April 19	24	109	78	31
Nebraska	April 19	25	109	78	31
Kansas	April 18	26	108	78	30
North Carolina	April 17	27	107	77	30
Ohio	April 17	28	107	77	30
Indiana	April 17	29	107	77	30
Arkanasa	April 17	30	107	68	39
Michigan	April 16	31	106	76	30
Oregon	April 16	32	106	76	30
South Carolina	April 16	33	106	76	30
Iowa	April 16	34	106	76	30
New Hampshire	April 15	35	105	75	30
Missouri	April 14	36	104	75	29
Delaware	April 14	37	104	75	29
Louisiana	April 13	38	103	74	29
NORTH DAKOTA	**April 12**	**39**	**102**	**73**	**29**
Texas	April 12	40	102	73	29
South Dakota	April 12	41	102	73	29
New Mexico	April 12	42	102	73	29
Oklahoma	April 11	43	101	73	28
Tennessee	April 11	44	101	73	28
Kentucky	April 10	45	100	72	28
Alabama	April 9	46	99	68	31
West Virginia	April 8	47	98	70	28
Montana	April 8	48	98	70	28
Mississippi	April 7	49	97	70	27
Alaska	March 29	50	88	67	21
District of Columbia	May 3	--	123	81	42

Source: State Government Tax Collections: 2007, www.census.gov/govs/statetax
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, www.bea.gov/regional
Source: Tax Foundation

CIGARETTE AND TOBACCO TAXES

CURRENT LAW

Cigarette Tax

Imposition and Rates

The cigarette tax is levied at two different tax rates. Cigarettes weighing less than three pounds per thousand are taxed at 22 mills per cigarette or 44¢ for a common package of 20, and 55¢ for a package of 25. Cigarettes weighing more than three pounds per thousand are taxed at 22½ mills per cigarette. Gray market or repatriated cigarettes may not be sold or possessed in North Dakota. "Gray market" or "repatriated" cigarettes are those cigarettes manufactured and packaged in the U.S. for the specific purpose of being exported with intent to be sold outside the U.S., and are brought back illegally into the country and sold. All cigarettes sold must be in packages of 20 or more cigarettes.

Roll-your-own cigarette tobacco is taxed at the cigarette rate. One cigarette equals .09 ounces of roll-your-own tobacco. Sales of bulk roll your own cigarette tobacco are converted to taxable cigarettes. Only tobacco advertised as roll your own is taxed at the cigarette rate.

Both wholesalers and dealers must be licensed by the Attorney General. Wholesalers pay the tax with monthly reports filed with the Tax Commissioner. For administrative compensation, wholesalers who file and pay on time may deduct 1½% of the tax due, up to a maximum of $100 per month.

Distribution of Revenue

Three cents of the 44¢ per package are distributed to the cities based on population and the remainder goes to the State General Fund. Of the 55¢ on the larger packages, 3¾¢ goes to the cities with the remainder to the State General Fund.

Tobacco Products Tax

Imposition and Rates

All tobacco products other than cigarettes and specific roll-your-own tobacco, such as pipe tobacco, chewing tobacco, snuff and cigars are subject to a tobacco products tax. Pipe tobacco and cigars are taxed at 28% of the wholesale purchase price. Snuff is taxed at 60 cents per ounce and chewing tobacco taxed at 16 cents per ounce. The tobacco products tax is administered in a manner similar to the cigarette tax.

Distribution of Revenue

Revenue from the tobacco products tax is placed in the State General Fund.

Tribal Cigarette And Tobacco Tax

The Standing Rock Sioux Tribe levies a cigarette and tobacco tax on all Native American retailers operating on the Standing Rock Sioux Reservation. The tax rates are identical to the state tax rates. The Tax Commissioner acts as the agent of the tribe to collect the tax. Seventy-five percent of collections, less a 3% administrative fee, is returned to the tribe. Twenty-five percent plus the administrative fee is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1983 Session.
- The cigarette tax was increased from 6 mills to 9 mills per cigarette. This increased the cigarette tax from 12¢ to 18¢ per package of 20.

1987 Session.
- The cigarette tax was increased from 9 to 13½ mills per cigarette, or from 18¢ to 27¢ per package of 20.
- The tobacco products tax was increased from 11% to 20% of the wholesale purchase price.

1989 Session.
- The cigarette tax was increased from 13½ to 15 mills per cigarette, or from 27¢ to 30¢ per package of 20.
- The tobacco products tax was increased from 20% to 25% of the wholesale purchase price.

1991 Session.

- The cigarette tax was decreased from 15mills to 14½ mills per cigarette, or from 30¢ to 29¢ per pack of 20.
- The tobacco products tax was decreased from 25% to 22% of the wholesale purchase price.
- Cigarette stamp requirements were repealed and replaced with monthly reports and payments.

1993 Session.

- The cigarette tax was increased from 14½ to 22 mills per cigarette, or from 29¢ to 44¢ per package of 20.
- The tobacco products tax was increased from 22% to 28% of the wholesale purchase price.

1993 Agreement.

- The Tax Commissioner and the Standing Rock Sioux Tribe signed an agreement to allow the commissioner to act as an agent of the tribe for the collection of a tribal cigarette and tobacco tax.

1999 Session.

- The sale of gray market cigarettes was prohibited, taxation of roll-your-own tobacco was moved from Other Tobacco Products to taxation as a cigarette and a minimum package size was established at 20 cigarettes per package.
- N.D.C.C. § 51-25 was enacted and requires the Tax Commissioner to accumulate information on purchases of cigarettes from non-participating manufacturers in the cigarette Master Settlement Agreement.

2001 Session.

- The method of taxing snuff and chewing tobacco was changed from a percentage of the wholesale price to a weight based value. Snuff is taxed at 60 cents per ounce and chewing tobacco is taxed at 16 cents per ounce.
- A change in the definition of Other Tobacco Products removed cigarette papers from the tobacco products tax.
- Cigars and pipe tobacco remain taxable at 28% of the whole purchase price.

2003 Session.

- The sale of "beedie" cigarettes was banned. Beedies are a product containing tobacco wrapped in a temburni leaf.
- Legislation prohibiting any dealer or distributor from knowingly selling or distributing any product not in compliance with N.D.C.C. § 51-25-02 was enacted.

2005 Session.

- New legislation requires vendors selling cigarettes over the Internet to register with the Tax Commissioner and provide sales and customer information.
- Internet vendors are also required to verify the age of cigarette customers.

Comparison of State Tobacco Products Taxes

January 1, 2008

State	Tax Rate/Base [1]
Alabama	
Cigars [2]	4.0¢-40.5¢/10 cigars
Tobacco/Snuff	0.6¢-5.25¢/ounce
Alaska	75% Wholesale Price
Arizona	
Cigars [2]	44.1¢-$2.60/20 cigars
Tobacco/Snuff	23.8¢/ounce
Arkansas	32% Manufactures Price
California [3]	45.13% Wholesale Price
Colorado	40% Manufactures Price
Connecticut [5]	20% Wholesale Price
Delaware	15% Wholesale Price
Florida	
Tobacco/Snuff	25% Wholesale Price
Georgia	
Little Cigars	2.5¢/10 cigars
Other Cigars	23% Wholesale Price
Tobacco	10% Wholesale Price
Hawaii	40% Wholesale Price
Idaho	40% Wholesale Price
Illinois	18% Wholesale Price
Indiana	24% Wholesale Price
Iowa	50% Wholesale Price
Kansas	10% Wholesale Price
Kentucky	7.5% Wholesale Price
Louisiana	
Cigars	8%-20% Manufacture Price
Tobacco/Snuff	33% Manufactures Price
Maine	
Chewing Tob./Snuff	78% Wholesale Price
Smoking Tob./Cigars	20% Wholesale Price
Maryland	15% Wholesale Price
Massachusettes	
Smokeless Tob.	90% Wholesale Price
Smoking Tob./Cigars	30% Wholesale Price
Michigan	32% Wholesale Price
Minnesota	70% Wholesale Price
Mississippi	15% Manufactures Price
Missouri	10% Manufactures Price
Montana	50% Wholesale Price
Nebraska	20% Wholesale Price
Nevada	30% Wholesale Price
New Hampshire	19% Wholesale Price
New Jersey	30% Wholesale Price
New Mexico	25% Product Value
New York	37% Wholesale Price
North Carolina	3% Wholesale Price
NORTH DAKOTA	
Cigars & Pipe Tobacco	28% Wholesale Price
Chew Tobacco/Snuff	16¢-60¢/ounce
Ohio	17% Wholesale Price
Oklahoma	
Cigars [2]	36¢-1.20¢/10 cigars
Tobacco/Snuff	60%-80% factory list price
Oregon	65% Wholesale Price
Rhode Island	40% Wholesale Price
South Carolina	5% Manufactures Price
South Dakota	35% Wholesale Price
Tennessee	6.6% Wholesale Price
Texas	
Cigars [2]	1¢-15¢/10 cigars
Tobacco/Snuff	35.213% Manufactures Price
Utah	35% Manufactures Price
Virginia	10% Wholesale Price
Vermont [6]	41% Manufactures Price
Washington	75% Wholesale Price
West Virginia	7% Wholesale Price
Wisconsin	50% Manufactures Price
Wyoming [4]	20% Wholesale Price

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) The volume based tax rates were converted to cents per 10 cigars or per ounce for consistency.
(2) Tax rate on cigars varies, based on the selling price.
(3) Tax rate is adjusted annually by the state, effective July 1st of each year
(4) or 10% of the retail price.
(5) Snuff tobacco taxed at 40 cents per ounce.
(6) Little cigars are taxed as cigarettes.

Cigarette Tax and Tobacco Tax Collections

Fiscal Year	Total Collections	Tobacco Tax (General Fund)	Cigarette Tax (General Fund)	Cigarette Tax (Cities)	Cigarette and Tobacco Tax (Tribal)
1998	24,293,434	1,847,905	20,846,708	1,523,488	75,534
1999	23,026,300	1,891,262	19,619,122	1,440,232	75,684
2000	22,825,622	1,983,222	19,359,086	1,414,712	68,602
2001	21,777,568	2,040,283	18,299,504	1,339,190	98,591
2002	21,541,087	2,233,271	17,913,354	1,313,836	80,626
2003	20,432,947	2,276,308	16,873,241	1,220,881	62,517
2004	21,134,603	2,297,901	17,477,510	1,284,013	75,179
2005	21,036,995	2,452,912	17,248,389	1,260,003	75,691
2006	23,457,650	2,707,489	19,278,592	1,407,166	64,403
2007	24,210,059	2,864,731	19,832,558	1,449,424	63,346
2008	24,098,407	3,165,007	19,448,680	1,421,337	63,383
2009 est.	23,737,000	3,404,000	18,888,000	1,382,000	63,000

SOURCE: North Dakota Office of State Tax Commissioner

State Excise Tax Rates on Cigarettes
January 1, 2008

State	Cents Per Pack	State	Cents Per Pack	State	Cents Per Pack
New Jersey	257.5	Iowa	136	Nebraska	64
Rhode Island	246	Pennsylvania	135	Tennessee [1] [2]	62
Washington	202.5	Ohio	125	Wyoming	60
Alaska	200	Minnesota [4]	123	Arkansas	59
Arizona	200	Oregon	118	Idaho	57
Connecticut	200	Delaware	115	West Virginia	55
Maine	200	New Hampshire	108	**NORTH DAKOTA**	**44**
Maryland	200	Oklahoma	103	Alabama [1]	42.5
Michigan	200	Dist. of Columbia	100	Georgia	37
Hawaii [3]	180	Indiana	99.5	Louisiana	36
Vermont	179	Illinois [1]	98	North Carolina	35
Wisconsin	177	New Mexico	91	Florida	33.9
Montana	170	California	87	Kentucky [2]	30
South Dakota	153	Colorado	84	Virginia [1]	30
Massachusetts	151	Nevada	80	Mississippi	18
New York [1]	150	Kansas	79	Missouri [1]	17
Texas	141	Utah	69.5	South Carolina	7
				U.S. (median)	100.0

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC, 1.50¢; TN, 1¢; and VA, 2¢ to 15¢.
(2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN.
(3) Tax Rate is scheduled to increase to $2.00 per pack on September 1, 2008.
(4) Plus an additional 25.5 cent sales tax is added to the wholesale price of a tax stamp (total $1.485).

COAL TAXES

Coal Severance Tax

CURRENT LAW

Imposition, Rate and Administration

The coal severance tax is imposed on the act of removing coal from the earth. The tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. The coal severance tax applies to all coal severed for sale or industrial purposes, except: coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural processing and sugar beet refining plants in the state or adjacent states.

The tax is applied at a flat rate of 37.5 cents per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund.

A 50% reduction in the 37.5-cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

Counties may grant a partial or complete exemption from the counties' 70% portion of the 37.5-cent tax for coal that is shipped out of state.

Payments of the tax are made monthly by the owner or operator of the mine.

Distribution of Revenue

Revenue from the 37.5-cent per ton severance tax is deposited in the Coal Development Fund and is distributed as follows:

- 30% to a permanent, constitutional trust fund administered by the Board of University and School Lands. The trust fund is used to supply loans to school districts for school construction and loans to cities, counties and school districts impacted by coal development. Investment income from the trust fund is first used to replace uncollectible loans made from the fund, and the balance is deposited in the State General Fund. Seventy percent of the tax collected and deposited in the permanent trust fund must be deposited in the lignite research fund.
- 70% among the coal producing counties according to the amount of coal each county produces. Revenue allotted to each county is further apportioned as follows: 40% to the county general fund; 30% to the cities within the county; and 30% to the school districts. Also, a nonproducing county within 15 miles of a currently active coal mine, and a city or school district in that county and within 15 miles of the mine, are entitled to a share of the coal producing county's severance tax revenue from that particular mine. The amount of coal production on which a county has to share its severance tax revenue with another county during a calendar year is limited to 3,400,000 tons.

Revenue from the additional 2-cent per ton tax is deposited into the Lignite Research Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session

- The Legislature first enacted the coal severance tax.
- Set the base rate at 50 cents per ton, increasing 1 cent per ton for each three-point increase in the Wholesale Price Index.
- Revenue distribution formula for the 1975-1977 biennium: 30% to State General Fund; 30% to a special trust fund administered by the State Land Board; 35% to a special fund for grants to impacted political subdivisions; 5% to coal-producing counties.

1977 Session

- Amended the rate to 65 cents per ton, increasing 1 cent per ton for every one-point increase in the Wholesale Price Index (Producer Price Index).
- Resulted in an increase from 56 cents per ton to 65 cents per ton, effective July 1, 1977.
- Changed the revenue distribution to: 30% to State General Fund; 15% to the trust fund; 35% for grants to impacted political subdivisions; and 20% to coal-producing counties.

1979 Session

- The base rate became 85 cents per ton, increasing 1 cent for every four-point increase in the Wholesale Price Index (Producer Price Index).
- Resulted in a decrease from 97 cents per ton to 85 cents per ton.
- Provided that if the tipple of an active coal mining operation in a county is within 15 miles of another county in which no coal is mined, the coal-producing county must share its coal severance tax revenue with the non-coal-producing county.

1981 Session

- Created an exemption for coal used by the state or any of its political subdivisions.
- Created an exemption for coal used for heating buildings within the state.
- Coal used for heating purposes became subject to sales tax.

1983 Session

- Changed filing requirements for coal mine owners or operators from quarterly to monthly.

1985 Session

- Created an exemption for coal used in agricultural processing or sugar beet refining plants within North Dakota or adjacent states.
- Enacted a 50% reduction in tax rate for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

1987 Session

- Reduced the base rate to 75 cents per ton and eliminated the escalator clause.
- Prior to the change, the escalator had resulted in a rate of $1.04 per ton.
- Enacted an additional tax of 2 cents per ton for the period July 1, 1987, through June 30, 1989, with the revenue dedicated to lignite research.
- Changed the distribution of the 75-cent tax to: State General Fund 50%; counties 35%; trust fund 15%; and eliminated the share previously allocated for grants to impacted political subdivisions.

1989 Session

- Made the 2-cent per ton tax for lignite research permanent.

1990 Constitutional Amendment

- Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow up to 50% of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development, and marketing.

1991 Session

- Provided for 50% of taxes collected and deposited in the trust fund to be appropriated by the legislature for lignite research, development, and marketing, in accordance with the 1990 constitutional amendment.

1993 Session

- Limited the amount of coal production on which a coal-producing county has to share its severance tax with a nearby non-producing county.
- Added loans for school construction to uses of the trust fund.
- Exempted coal shipped out of state after June 30, 1995, and before July 1, 2000, from the state's 50% portion of the tax.
- Provided that counties may grant a partial or complete exemption from the county's 35% portion of the tax.

1994 Constitutional Amendment

- Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow 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 Department of Energy did not approve a clean coal demonstration project in North Dakota.]

1995 Session

- Increased to 70% the portion of taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development, and marketing.

1997 Session

- Effective July 1, 1999, the legislature exempted coal burned in coal-fired boilers in generation stations having a total capacity of not more than 210 megawatts, within North Dakota or adjacent states, from 50% of the 75-cent coal severance tax.
- A city, school district, or the county commissioners of the county in which the coal is mined may grant a partial or complete exemption from their share of severance tax revenues.
- A political subdivision that has granted an exemption from all or part of its share of severance tax revenues must be omitted from the allocation or have its allocation adjusted to reflect the reduction it has granted.

1999 Session

- Repealed the exemption for coal burned in small boilers, effective July 1, 2003.

2001 Session

- Reduced the 75-cent tax to 37.5 cents per ton.
- Repealed the exemption for coal burned in small boilers, effective July 1, 2001.
- Changed the distribution of the 37.5-cent tax to allocate 30% to the coal development trust fund and 70% to the counties.
- Allowed a county to grant a full or partial exemption from its 70% share for coal shipped out of state.

TAXATION OF COAL IN NEIGHBORING STATES

Montana

Montana levies the following taxes on surface mined coal:

- Coal Gross Proceeds Tax

  A statewide 5% yearly flat tax is imposed on coal gross proceeds. The gross proceeds of coal is determined by multiplying the number of tons produced by the contract sales price. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation. This tax is collected at the county level.

- Coal Severance Tax

  Imposed on all coal mined in the state. Producers of over 50,000 tons of coal per year pay a quarterly severance tax on all production in excess of 20,000 tons. Producers of under 50,000 tons per year are exempt from the tax.

Tax rates depend on the heat content (BTU's per pound) of the coal and the method of extraction. The value of coal to which the severance tax is applied is the contract sales price. Current tax rates:

Surface Mined Coal

Under 7,000 BTU's	10% of value
7,000 BTU's and over	15% of value

Incentives. Persons producing less than 50,000 tons of coal in a year are exempt from severance tax. Persons producing more than 50,000 tons of coal in a year are exempt from severance tax on the first 20,000 tons produced. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation under the gross proceeds tax.

Wyoming

Wyoming levies the following taxes on surface mined coal:

- A severance tax of 7% of the mine mouth value to a maximum of $.60 per ton. This is a lower base than is used in Montana because Wyoming allows deductions for costs, such as crushing and transportation to market, that occur after the coal has been brought to the mouth of the mine.
- A "gross products tax." It is based on the same taxable value as that used for severance tax purposes but is collected by the counties and based on applicable local mill rates. Average county mill rates for tax year 2007 range from 60.524 mills to 76.635 mills.

Incentives. A maximum severance tax rate of 60 cents per ton applies on qualifying coal sales agreements. The cap on coal severance tax only applies to a few coal contracts, because most producers pay less than 60 cents at surface coal mines.

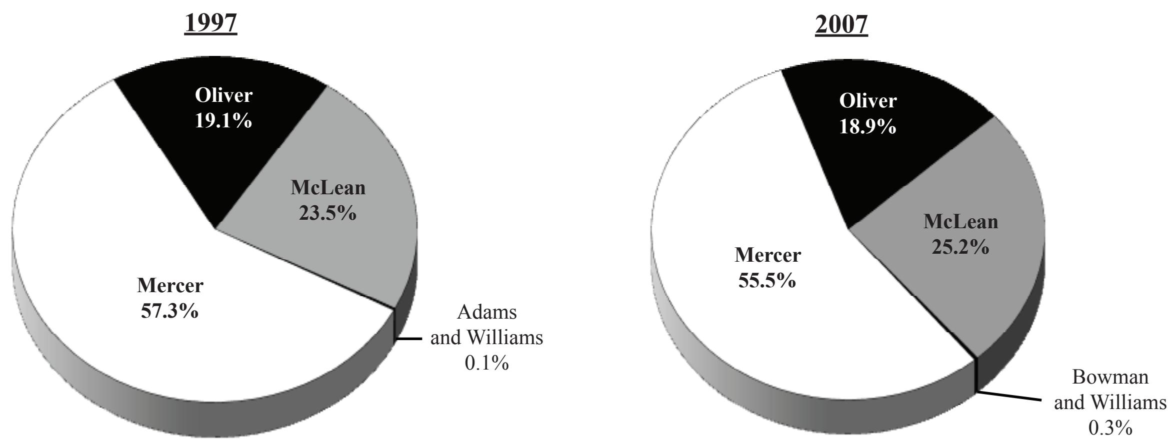
Coal Severance Tax Collections and Distribution

Fiscal Year	Total Collections	State General Fund	Land Board Trust Fund	Counties	Lignite Research
1998	22,725,858	11,865,647	3,320,946	7,748,874	590,390
1999	23,582,059	11,482,232	3,446,153	8,041,024	612,649
2000	23,572,353	11,206,459	3,521,932	8,217,841	626,121
2001	23,095,487	10,967,395	3,454,203	8,059,808	614,081
2002	12,850,893	775,794	3,439,110	8,024,591	611,397
2003	12,202,063	0	3,475,271	8,108,966	617,826
2004	12,450,642	0	3,546,069	8,274,161	630,412
2005	11,458,156	0	3,263,399	7,614,597	580,160
2006	12,014,618	0	3,421,885	7,984,398	608,335
2007	11,969,504	0	3,409,036	7,954,417	606,051
2008	11,585,819	0	3,299,759	7,699,437	586,624
2009 est.	11,500,000	0	3,275,317	7,642,405	582,278

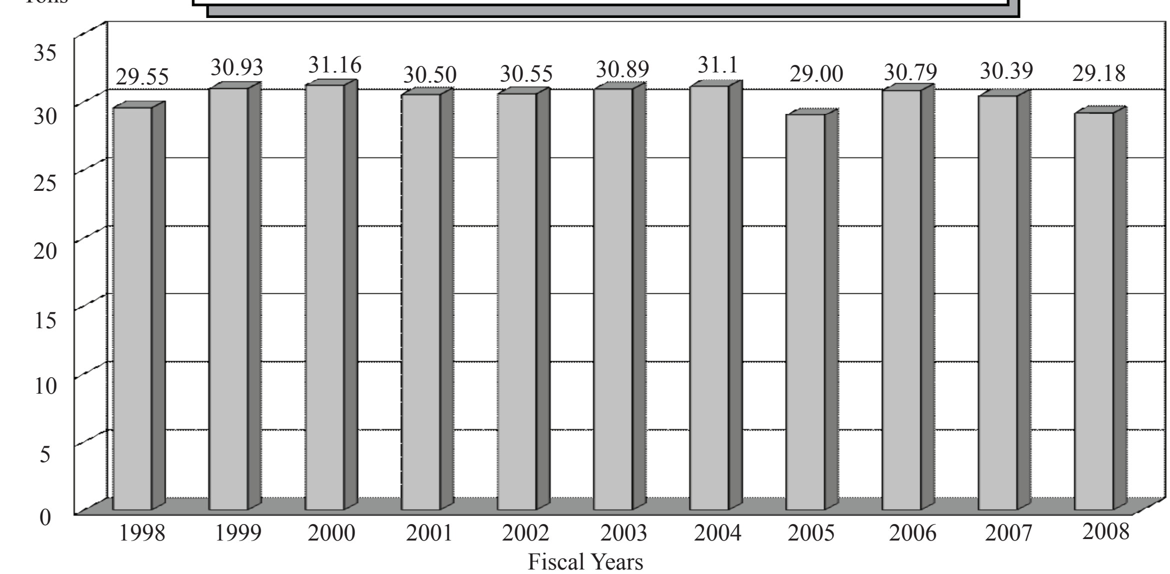
SOURCE: North Dakota Office of State Tax Commissioner

County Breakdown - Coal Severance Tax Revenue

Fiscal Years 1997 and 2007



North Dakota Taxable Coal Production



Coal Conversion Tax

CURRENT LAW

Imposition, Rate and Administration

The coal conversion facilities privilege tax is imposed on the operator of a coal conversion facility for the privilege of producing electricity or other products from coal conversion plants. A coal conversion facility is defined as (1) an electrical generating plant which has at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, (2) a plant other than an electrical generating plant which processes or converts coal and uses or is designed to use over 500,000 tons of coal per year, or (3) a coal beneficiation plant.

The coal conversion tax is in lieu of property taxes on the plant itself, while the land on which the plant is located remains subject to property tax. The tax is paid monthly.

Electrical Generating Plants. Electrical generating plants, as defined above, are subject to two separate levies. One levy is .65 mill times 60% of installed capacity times the number of hours in the taxable period and the other levy is .25 mill per kwh of electricity produced for sale. Installed capacity means the rating shown on the nameplate assigned to the turbine of the power unit.

Other Coal Conversion Plants. A ***coal gasification plant*** is subject to a monthly tax measured by 13.5 cents per thousand cubic feet of gas produced for sale or 4.1% of gross receipts, whichever is greater. ***Plants converting coal to products other than gas*** are taxed at 4.1% of gross receipts. The tax rate for a ***coal beneficiation plant*** is 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater.

Exemptions

Exemptions to the coal conversion tax are as follows:

- Synthetic natural gas produced in excess of 110 million cubic feet per day.
- Income from byproducts of a coal gasification plant to a maximum of 20% of gross receipts.
- Revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas.
- Beneficiated coal produced in excess of 80% of plant design capacity.
- A new or re-powered coal-burning electrical generating plant is exempt from the State General Fund portion of both levies for five years. The county may grant an exemption for up to five years from the county's 15% share of the levy on installed capacity.
- All new coal conversion plants other than electrical generating plants are exempt from the State General Fund portion (85%) of the tax for five years. The county may grant a partial or complete exemption from the county's 15% share for up to five years.

Distribution of Revenue

Electrical Generating Plants. The revenue from the .25 mill levy on production is deposited in the State General Fund. The revenue from the .65 mill levy on installed capacity is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

Other Coal Conversion Plants. Through December 31, 2009, the first $41,666.67 of revenue each month is deposited in the State General Fund. The remaining revenue is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session

- Enacted the privilege tax on coal conversion facilities.
- Set the tax rate on electrical generating plants at ¼ mill per kilowatt hour (kwh) produced for sale.
- Set the tax on all other coal conversion facilities at 2½ % of gross receipts or 10 cents per thousand cubic feet (mcf) of synthetic natural gas, whichever is greater.
- Made the formula for allocation of coal conversion tax revenue dependent on the amount of revenue generated from each county.
- As revenue from a county increased, the percentage distributed to the State General Fund increased and the percentage distributed to the county decreased.
- Apportioned the county share 40% to the county, 15% to cities, and 45% to school districts.

1977 Session

- Changed the revenue distribution formula to 65% to the State General Fund and 35% to the county.
- Changed allocation of the county share to 40% to the county, 30% to cities, and 30% to school districts.

1983 Session

- Enacted an additional ¼ mill per kwh tax for electrical generating plants, which brought the tax rate on electrical generating plants to ½ mill per kwh.
- Dedicated revenue from the ¼ mill increase entirely to the State General Fund.
- Changed filing requirements from a quarterly basis to monthly.

1985 Session

- Changed the tax rate on coal gasification plants constructed before July 1, 1985, from 10 cents to 15 cents per mcf of gas produced for sale, or 2½ % of gross receipts, whichever is greater.
- Changed the definition of gross receipts to exclude any financial assistance from the federal government.
- Provided a five-year exemption from part or all of the tax for coal conversion facilities, other than electrical generating plants, that were constructed after July 1, 1985.

1987 Session

- Changed the rate on electrical generating plants to one ¼ mill levy on 60% of installed capacity times the number of hours in the taxable period and one ¼ mill levy on production.
- Reduced the tax rate on coal gasification plants to 7 cents per mcf of gas produced for sale or 2½% of gross receipts, whichever is greater.
- Exempted synthetic natural gas produced in excess of 110 million mcf per day.
- Exempted byproducts of a coal gasification plant to a maximum of 20% of gross receipts.
- Made the five-year exemption for coal conversion facilities other than electrical generating plants effective from the date of first taxable production.
- Eliminated the reference to date of construction.

1989 Session

- Defined a coal beneficiation plant as a coal conversion plant.
- Enacted a tax of 20 cents per ton of beneficiated coal or 1¼ % of gross receipts, whichever is greater, on coal beneficiation plants.
- Exempted beneficiated coal produced in excess of 80% of plant design capacity.

1991 Session

- Created a five-year exemption from part of all of the tax for new coal-burning electrical generation plants.

1997 Session

- Increased the exemption for income from byproducts of a coal gasification plant from 20% to 35% from January 1, 1997, through December 31, 2000.
- Provided the exemption reverts to 20% after December 31, 2000.
- Exempted revenue derived from the sale and transportation of carbon dioxide for use in enhanced recovery of oil or natural gas, retroactive to January 1, 1997.

2001 Session

- 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 kwh or more.
- Increased the tax rate on installed capacity to .65 mill times 60% of installed capacity times the number of hours in the taxable period.
- Changed the distribution of the tax on installed capacity to 85% to the State General Fund and 15% to the county in which the plant is located.
- Increased the tax rate on synthetic natural gas to $.135 per mcf.
- Changed the tax rate on gross receipts to 4.1%.

- For calculation of gross receipts, established ceiling prices per mcf of synthetic natural gas, of $4.25 for 2001 and 2002; $4.35 for 2003; $4.45 for 2004; $4.55 for 2005; $4.65 for 2006; $4.75 for 2007; $4.86 for 2008; and $4.97 for 2009.
- Excluded from the definition of gross receipts any revenue received by the operator of a coal gasification plant in excess of the amount per mcf of synthetic natural gas established as the ceiling price for each calendar year from 2001 through 2009.
- Required the first $41,666.67 received each month from a coal conversion facility other than an electrical generating plant to be deposited in the State General Fund through December 31, 2009.
- Allocated the remainder 85% to the State General Fund and 15% to the county in which the plant is located.
- Provided that allocation of the coal conversion tax to each county may not be less in each calendar year than it was in the immediately preceding calendar year.
- Provided that any county that has a coal conversion facility that was not a coal conversion facility before January 1, 2002, had to receive for 2002 at least as much as that facility paid in property taxes for taxable year 2001.
- Provided that for subsequent years the county must receive no less than it received in the preceding year.
- Required that all amounts received from that facility must be allocated in the same manner property taxes were allocated for taxable year 2001.

2005 Session

- Enacted the Coal Conversion Facility Tax Reduction Act that provides a five-year exemption for electrical generating plants that complete repowering.
- Defined "repowering" 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.
- In February 2006, the South Central Judicial District Court found the Coal Conversion Facility Tax Reduction Act unconstitutional.

2007 Session

- Provided that from July 1, 2007, through June 30, 2009, 3½ % of funds allocated to the State General Fund from the coal conversion tax must be allocated to the lignite research fund.
- Expressed legislative intent that $500,000 is to be used to pay for fees associated with lignite litigation that may be brought by the state to protect and promote the continued development of lignite resources. If activities associated with the litigation are not initiated by January 1, 2009, the $500,000 must be returned to the State General Fund.
- Changed statutory references to "lignite" to "coal" in legislation enacted in 2005, relating to repowered plants, which was found unconstitutional by the South Central Judicial District Court.

Coal Conversion Tax Collections and Distribution

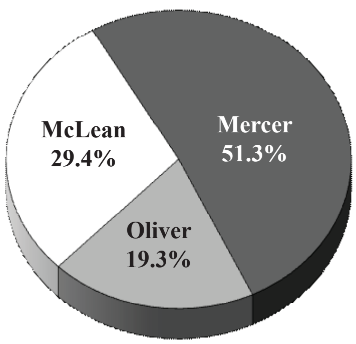
Fiscal Year	Total Collections	Distributed to State General Fund	Distributed to Counties
1998	14,531,835	11,790,623	2,741,212
1999	14,692,468	11,996,168	2,696,300
2000	15,387,068	12,490,737	2,896,331
2001	16,443,620	13,181,432	3,262,188
2002	25,349,890	22,552,708	2,797,183
2003	27,246,539	24,342,549	2,903,990
2004	28,106,144	24,432,816	3,673,328
2005	26,264,860	22,764,015	3,500,845
2006	27,784,633	24,042,047	3,742,586
2007	28,930,510	25,175,816	3,754,693
2008	27,461,267	23,843,410	3,617,857
2009 est.	26,680,000	23,622,000	3,058,000

SOURCE: North Dakota Office of State Tax Commissioner

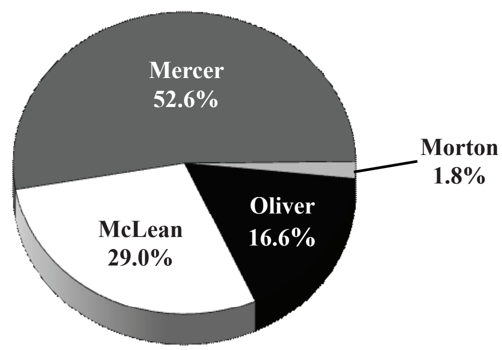
County Breakdown - Kilowatt Hours Produced Subject to Coal Conversion Tax

Fiscal Years

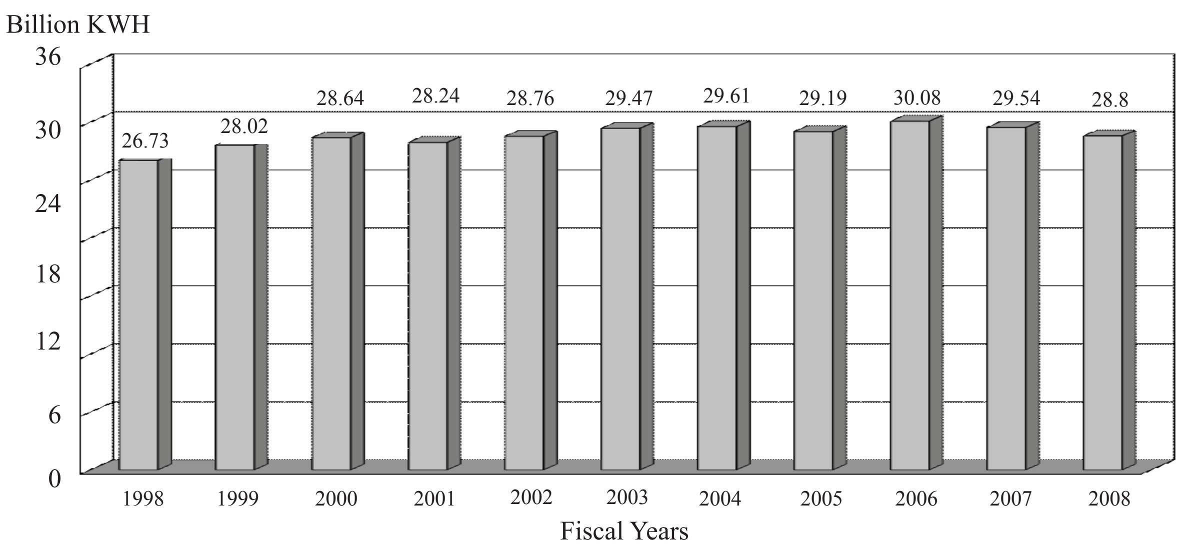
1997



2007



Kilowatt Hours (KWH) Produced Subject to Coal Conversion Tax



CURRENT LAW

Filing Requirements

Every corporation engaged in business in North Dakota or having sources of income in North Dakota must file a North Dakota corporation income tax return. Most returns are due on the 15th day of the fourth month following the close of the tax year. Returns filed by cooperatives are due on the 15th day of the ninth month following the close of the tax year. Returns of tax-exempt organizations reporting unrelated business taxable income are due on the 15th day of the fifth month after the close of the tax year. Payment is made with the return.

A corporation is required to pay estimated tax on a quarterly basis if:
- the estimated tax due exceeds $5,000, <u>and</u>
- the previous year's total tax liability exceeded $5,000.

Starting Point for Calculating Tax

The starting point for calculation of corporation income tax is federal taxable income. North Dakota income tax law is perpetually federalized for this starting point.

Apportionable Income

A corporation's apportionable income is determined by adjusting the corporation's federal taxable income.

Additions to federal taxable income include:
- All income, franchise or privilege taxes measured by income which were deducted on the federal return.
- Interest on state and local obligations (excluding North Dakota).
- Special deductions and net operating loss deductions taken on the federal return.
- Federal safe harbor lease adjustments.
- The amount of the U.S. production activities income deducted in calculating federal taxable income.

Subtractions from federal taxable income include:
- State income tax refunds.
- Interest from U.S. obligations.
- Nonbusiness income (net of related expenses) from sources outside North Dakota.
- Federal safe harbor lease adjustments.

North Dakota Taxable Income

North Dakota taxable income is that portion of a corporation's apportionable income which is derived from, or attributable to, sources within North Dakota.

A corporation whose business activity is conducted solely within North Dakota is a nonapportioning corporation. North Dakota taxable income is the entire apportionable income reduced by any net operating loss carryforward attributable to North Dakota sources.

Parent and subsidiary corporations, which operate totally within North Dakota and file a federal consolidated tax return, must file a state consolidated corporation income tax return using the combined report method.

A corporation whose activity is conducted both within and without North Dakota is an apportioning corporation. North Dakota taxable income is computed by multiplying the apportionable income by an apportionment factor. This amount is reduced by any net operating loss carryforward attributable to North Dakota sources, and any applicable income exemptions. The apportionment formula includes property, payroll and sales factors, and is calculated as follows:

$$\left(\frac{\text{ND Property}}{\text{Total Property}} + \frac{\text{ND Payroll}}{\text{Total Payroll}} + \frac{\text{ND Sales}}{\text{Total Sales}}\right) \div 3$$

<u>Unitary Report and Water's Edge Election.</u> A unitary combined report is required when two or more corporations are conducting a unitary business. A unitary business is one in which the activities of two or more affiliated corporations depend upon, contribute to, or are integrated with each other. The combined report includes the total apportionable income of all members of the unitary group. To be included in a combined report, an affiliated corporation must have more than 50% of its voting stock owned directly or indirectly by a common parent, which is also a member of the group.

North Dakota applies the unitary concept on a worldwide basis. In other words, total apportionable income includes income of all affiliated companies of the unitary group, whether those companies are incorporated within or outside the United States. A corporation may elect to apportion its income using the water's edge approach.

Under such an election, the corporation must comply with the following:

1. The election must be made on the return as originally filed.
2. The water's edge election is binding for five consecutive years.
3. A domestic disclosure spreadsheet must be filed in the election year and every third year thereafter provided that property, payroll or sales in foreign countries exceed $10 million and total assets exceed $250 million.
4. The water's edge report must include the income and apportionment factors of the water's edge group, 30% of foreign dividends, and 30% of net book income from 80/20 corporations. An 80/20 corporation refers to an affiliated corporation incorporated in the U.S., but having less than 20% of its property and payroll assigned to U.S. locations.

Rate Table

Effective for tax years beginning after December 31, 2006, North Dakota corporation income tax is determined by applying the following rates to North Dakota income:

TAXABLE INCOME:	
Up to $3,000	2.6%
$ 3,000 to $ 8,000	4.1%
$ 8,000 to $ 20,000	5.6%
$ 20,000 to $ 30,000	6.4%
Over $30,000	6.5%

Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income.

Distribution of Revenue

All revenue from the corporation income tax is deposited in the State General Fund.

New Business Exemptions

Qualifications. A new or expansion project in a primary sector or tourism business may qualify for an income tax exemption for up to five years. "Primary sector" refers to a business that adds value to a product, process or service that produces wealth in North Dakota. "Tourism" refers to a tourism-related business that is a destination attraction. The exemption is limited to income earned from the qualifying project. The project operator is required to file a state income tax return even though an exemption is granted.

Limitations. A business is not eligible for an exemption if:
- The business received a property tax exemption under tax increment financing;
- There is an outstanding recorded lien for delinquent property, income, sales or use taxes against the project operator or principle officers; or
- The exemption fosters unfair competition or endangers existing business.

Application Procedures. The business must apply to the State Board of Equalization, c/o the Office of State Tax Commissioner.
- The application must be filed within the first year of project operations.
- The application is reviewed by the Department of Commerce, Division of Economic Development and Finance.
- The business must provide notice to competitors as prescribed by the State Board.
- The State Board considers the application and any testimony at a public meeting and then grants or denies the exemption and certifies the results to the State Tax Commissioner.

Business Incentive Agreement. Corporations that receive an income tax exemption must enter into a Business Incentive Agreement with the State Board of Equalization.

Renaissance Zone Exemptions

North Dakota allows these exemptions under the Renaissance Zone Act:
- A five-year business income exemption for purchasing, leasing, or making improvement to real property used in an existing business.
- A five-year investment income exemption for purchasing residential or commercial real property solely for investment purposes.

Tax Credits

North Dakota allows corporation income tax credits for:
- A portion of North Dakota wages and salaries, if the corporation is a new industry. A corporation which receives a new or expanding business income tax exemption does not qualify for this credit (see preceeding New Business Exemptions).
- Investment in a certified nonprofit development corporation.
- Investment in a qualified North Dakota seed capital business.

- Investment in a qualified North Dakota agricultural commodity processing facility.
- Research and experimental expenditures incurred within North Dakota.
- Contributions to nonprofit private high schools and nonprofit private colleges in the state.
- Installation of geothermal, solar, wind energy or biomass devices.
- A portion of North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.
- Qualified investment in a North Dakota renaissance fund organization.
- Investment in historic property preservation or renovation in a renaissance zone.
- Direct costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel.
- Direct costs incurred by fuel sellers to adapt or add equipment to their facilities to enable the sales of at least 2% biodiesel fuel blends.
- Fuel blended by licensed fuel suppliers to contain at least 5% biodiesel fuel (a five cent per gallon credit).
- Investment in an angel fund incorporated in North Dakota.
- A portion of compensation paid to interns working in North Dakota.
- Specific costs of extraordinary recruitment to hire individuals for hard-to-fill positions in North Dakota.
- New investment and new employment in a certified microbusiness.
- A portion of property taxes paid on commercial property in North Dakota.
- Contributions to a qualified endowment of a qualified nonprofit organization incorporated or organized in North Dakota.

HISTORICAL OVERVIEW

Significant Changes in Law

1919 Session.
- A tax on corporation income was first enacted. Among the deductions allowed was a deduction for taxes paid to federal, state, local or foreign governments.

1923 Session.
- The state's corporation income tax was revised and reenacted with a 3% flat rate.

1937 Session.
- The corporation income tax was changed to a graduated rate structure.
- For tax years after December 31, 1936 corporation income tax rates ranged from 3% to 6%. (See historical rate table on page 32.)

1978 Initiated Measure.
- The initiated measure added a tax bracket for taxable income over $25,000.
- For tax years after December 31, 1977, corporation income tax rates ranged from 3% to 8.5%. (See historical rate table on page 32.)

1979 Session.
- A tax credit for contributions to nonprofit private high schools was created.
- The 1% business privilege tax on business income paid by individuals, estates, trusts, partnerships and corporations was repealed.

1981 Session.
- A tax credit for the installation of a geothermal energy device was created.
- A deduction was created for interest on bonds issued by a regional railway authority in North Dakota.
- For tax years beginning after December 31, 1980, corporation income tax rates were reduced. Rates ranged from 2% to 7%. (See historical rate table on page 32.)

1983 Session.
- Declaration of estimated tax requirements was adopted for corporations with estimated taxes of more than $5,000.
- Corporation income tax rates for tax years beginning after December 31, 1982, were changed. Rates ranged from 3% to 10.5%. (See historical rate table on page 32.)

1985 Session.
- A tax credit was provided for investments made in a North Dakota venture capital corporation. (Repealed effective August 1, 2007 in the 2005 Session.)

1987 Session.
- Corporations were allowed to choose the water's edge method of apportioning income for tax years beginning after December 31, 1988.
- An alternative minimum tax (AMT) was enacted. (Repealed in the 1991 Session.)
- A deduction was added for dividends from the Myron G. Nelson Fund, Inc., a state established venture capital corporation. (This was renamed the North Dakota Small Business Investment Company in the 1995 session and, in the 2005 Session, was repealed effective August 1, 2007.)

- Credits were created for research expenditures, for investments in the Myron G. Nelson Fund, Inc., and for North Dakota wages paid to developmentally disabled or chronically mentally ill employees.
- Income tax returns included a provision for optional contributions to the nongame wildlife fund. (Repealed in the 1991 Session.)
- Limitations were removed on the type of business qualifying for the new business exemption. The exemption had been limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

1989 Session.
- A credit was added for investment in a nonprofit development corporation.
- The alternative minimum tax (AMT) rate was changed from 5% to 6%. A credit was created for the amount the alternative minimum tax exceeds regular liability in past years.
- The water's edge election was made binding for five years instead of ten. The water's edge spreadsheet requirement was reduced from yearly to the first year and every third year thereafter.
- The centennial tree trust fund was added as an optional contribution. (Repealed in the 1991 Session.)

1991 Session.
- When the AMT was repealed, the remaining AMT credit was allowed to be carried over for up to four years. A deduction was added for certain federal AMT disallowed on previous state returns.
- The legislature approved the Taxpayer Bill of Rights.
- The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-added primary sector and tourism businesses.

1993 Session.
- Limited liability companies (LLC), a new form of business entity, were legalized.
- The requirement to file informational returns was removed for tax exempt organizations and insurance companies subject to the insurance premium tax (see page 56). Unrelated taxable income must be reported.
- A credit was created for alternative fuel equipment installed on motor vehicles. (This credit expired December 31, 1997.)

1994 Special Session.
- Project size limitations were removed as qualifications for the new or expanding business tax exemption, allowing large projects to qualify.

1995 Session.
- Corporations with parent and subsidiaries operating totally in the state were required to file a state consolidated corporation income tax return using the combined report method for tax years beginning after December 31, 1994.

1997 Session.
- The law was changed for a single member LLC. A single member LLC will be treated as a corporation for North Dakota purposes if treated as a corporation for federal income tax purposes; otherwise it must be disregarded as an entity separate from its owner. If any LLC meets the definition of a financial institution, as defined in N.D.C.C. ch. 57-35, it must file as a financial institution.
- A corporation may elect to apply an overpayment of estimated tax to a specific estimated installment other than the first quarter's installment.
- A number of changes were made affecting the interest calculation provisions.

1999 Session.
- The interest rate on refunds was increased from 10% per year to 1% per month (or a fraction of a month), equalizing the rate of interest on a refund to the rate of interest charged on late payments or additional tax due.
- Cities were provided authority to create "renaissance zones." Various income exemptions and tax credits are allowed for investments in approved renaissance zones.

2001 Session.
- For tax-exempt organizations, the due date to file returns reporting unrelated business taxable income was changed to the 15th day of the fifth month following the tax year end.
- A change was made to extend the time period to assess tax. When a 25% understatement of taxable income or income tax exists, an extension may be entered into before the six-year assessment statute expires.
- The tax credit for geothermal, solar or wind energy devices was changed. Property leased in North Dakota became eligible. For devices installed after December 31, 2001, the credit is 3% of acquisition and installation cost, in each of the first 5 tax years. Passthrough entities' owners claim the entities' credit in proportion to the ownership interest. The credit is available for devices installed before January 1, 2011.

- For tax assessments made after December 31, 2000, a regulated investment company is allowed a deduction for dividends paid to the shareholders or to a fund of a regulated investment company.
- For renaissance zones, a change was made to allow an exemption for income from property owned or leased for either a business or investment purpose. The exemption was also extended to qualifying rehabilitations of residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed $250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

2003 Session.

- The deduction for federal income taxes paid was eliminated for tax years beginning after December 31, 2003.
- Corporation income tax rates changed and ranged from 2.6% to 7.0%. Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income. (See historical rate table on page 32.)
- North Dakota net operating losses in tax years beginning after December 31, 2002 cannot be carried back to a previous tax year. Such losses can only be carried forward.
- Based on a North Dakota Supreme Court ruling, the North Dakota domestic dividend exclusion was repealed, effective for tax years beginning after December 31, 1999.
- A credit was created for costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel.

2005 Session.

- Two new addition adjustments to federal taxable income were authorized effective for taxable years beginning after December 31, 2004:
  - U.S. production activities income deducted to compute federal taxable income.
  - Extraterritorial income excluded from the computation of federal taxable income (for tax years 2005 and 2006 only).
- The credit for installation of geothermal, solar or wind energy devices was modified. If a corporation eligible for the credit is a member of a group of corporations filing a consolidated North Dakota return using the combined reporting method, the credit may be offset against the consolidated tax liability (as opposed to applying it against just the tax liability of the corporation eligible for the credit). In addition, any taxpayer eligible for the credit may carry an unused credit forward for five tax years.
- Eligibility for the seed capital and agricultural commodity processing facility investment tax credits was expanded to include regular corporations, trusts and passthrough entities (such as S corporations and partnerships). In the case of a passthrough entity, the tax credit must be passed through to the entity's owners based on their respective ownership interests. The tax credit must be claimed first in the year in which the business received the payment. Monies being held in escrow do not constitute an eligible investment.
- The amount of investment eligible for the seed capital investment tax credit was limited to a lifetime limit of $500,000 for investments made after December 31, 2004, in qualified businesses certified after December 31, 2004. For investments made after December 31, 2004, the amount of tax credits allowed for all investments in all qualified businesses was limited to $2.5 million per calendar year.
- The amount of credit for an investment in an agricultural commodity processing facility was limited to $50,000 in a tax year. The total credit a taxpayer is eligible for in all tax years was limited to $250,000. The number of tax years over which a taxpayer may carry forward an unused tax credit was reduced from fifteen to five years.
- A new provision relating to refund claims for taxes (other than property taxes) affects tax returns filed or tax payments made after December 31, 2004. After this date, claims for credit or refund based on a claim that the tax or the law is unconstitutional must be made within 180 days of the due date of the return or payment of the tax, whichever occurs first.
- Two new credits related to biodiesel fuel were authorized for: 1) fuel sellers who adapt or add equipment to their facilities to enable the sales of at least 2% biodiesel blends, and 2) licensed fuel suppliers who blend fuel containing at least 5% biodiesel fuel.

2007 Session.

- Changes were made to filing requirements for "short period" returns, i.e., returns filed for a tax year that is less than 12 months. Such returns must be filed by the later of April 15, or the due date prescribed by the IRS. For a short period that is less than 120 days, no estimated payment of tax is required.
- Revisions were made to the following tax credits:
  1) Seed capital investment tax credit - The calculation of the allowable tax credit was changed to be 45% of investments made in a tax year, with no limitation of the amount of investment or credit. The limitation on the amount of tax credit that can be used in any tax year was changed to $112,500. (Credits in excess of

$112,500 may be carried over.) Angel funds were added as eligible for the tax credit. The credit based on the angel fund's investment is passed through to the angel fund investors who claim the credit on their own respective returns.

2) Agricultural commodity processing facility investment tax credit - The calculation of the allowable credit was changed to be 30% of investments made in a tax year, with no limitation of the amount of investment or credit. The limitation on the amount of tax credit that can be used in any tax year was changed to $112,500. The carryover period for unused credits was increased to 10 years. "Qualified investment" was redefined to include cash or transfer of interest in real property in North Dakota, subject to certain conditions.

3) Credit for research and experimental expenditures - The calculation of the credit was changed from the prior computation of 8% of the first $1.5 million of eligible expenses and 4% of eligible expenses above $1.5 million. For tax years beginning after December 31, 2006, the calculation begins with 25% of the first $100,000 of eligible expenses. For eligible expenses over $100,000 in a tax year, the applicable percentage for tax years 2007 through 2016 is:
   - 20%, if qualified research in North Dakota first begins in 2007 through 2010.
   - 7½% for 2007, 11% for 2008, 14½% for 2009, and 18% for 2010 through 2016, if qualified research in North Dakota began before 2007.
   - 8%, if qualified research in North Dakota first begins after 2010.

   For tax years after 2016, for eligible expenses over $100,000, the applicable percentage for all taxpayers is 8%.

   For taxpayers who began qualified research in North Dakota before January 1, 2007, the maximum credit allowed in any year is $2 million; any credit over this amount is not allowed in any year.

   For tax years after December 31, 2006, credits earned by any corporation in a consolidated corporation income tax return may be used to reduce the aggregate tax liability of all corporations in the return.

4) Credit for installation of geothermal, solar or wind energy devices - The credit was expanded to include devices that use biomass as the renewable energy source. For all devices eligible for the credit installed on or after January 1, 2007, if ownership of an eligible device is sold at the time the installation is completed, and the device is fully operational, the tax credit allowed to the installer transfers with the device to the purchaser.

- Saleable Tax Credits - The 2007 Legislative Session authorized the first saleable tax credits in North Dakota's history as follows:
  1. Credit for research and experimental expenditures
     - Subject to certain conditions, a taxpayer may sell, transfer, or assign up to $100,000 of unused credit to another taxpayer if the selling taxpayer is certified by the Department of Commerce:
     - To be a primary sector business.
     - To have annual gross revenues of less than $750,000.
     - To conduct research in North Dakota beginning after December 31, 2006.
     - To not have previously earned or claimed the credit in North Dakota.
  2. Credit for installation of biomass, geothermal, solar or wind energy devices - Subject to certain conditions, for devices installed on or after January 1, 2007, a taxpayer may sell, transfer or assign an unused credit to another taxpayer if the purchaser:
     - Purchases electrical power generated by the energy device, as a part of the consideration in the purchase power agreement, or
     - Constructs or expands electrical transmission lines in North Dakota after August 1, 2007.
     - The total amount of tax credits that can be sold by all eligible taxpayers during a biennium is $3 million.

The following new tax credits were authorized:
- Angel fund investment tax credit - Corporations may receive a credit equal to 45% of the total investments made in angel funds in a tax year, up to a maximum credit of $45,000 per tax year. An unused credit in the year of the investment may be carried forward for up to 4 years. To qualify, the angel fund must be incorporated in North Dakota and be in compliance with North Dakota securities laws. (A taxpayer claiming this credit may not also claim an income tax credit passed through by an angel fund resulting from the angel fund's own investment under the tax credit programs for seed capital investment or investment in an agricultural commodity processing facility.)
- Internship employment tax credit - Corporations may receive a credit equal to 10% of the compensation paid to up to 5 interns at a time. To be eligible, an intern must be enrolled in an institution of higher education or vocational or technical education program in a major field of study closely related to the work to be performed. The internship must qualify for academic credit, the intern must be working in North Dakota, and must be supervised by the employer. An employer is allowed a maximum of $3,000 in credits for all taxable years combined.

- Workforce recruitment tax credit - Corporations may receive a credit for employing extraordinary recruitment methods that result in the hiring of employees for hard-to-fill positions in North Dakota. The credit is equal to 5% of the compensation paid during the first 12 consecutive months such an employee is hired and is allowed in the first tax year following the completion of those twelve months. Any unused credit may be carried forward for up to 4 years. To be eligible, the annual salary for the position must be at least 125% of North Dakota's average wage (as published by Job Service North Dakota). Also, an employer must have used all of the following recruitment methods for at least six months to fill the position: 1) contracted with a professional recruiter for a fee; 2) advertisied in a professional trade journal, magazine, or other publication directed at a particular trade or profession; 3) provided employment information on a web site for a fee; and 4) paid a signing bonus, moving expenses, or atypical fringe benefits.
- Microbusiness income tax credit - A corporation is allowed a credit for new investment and new employment in a microbusiness in North Dakota that creates new income or jobs. A microbusiness has up to 5 employees and is located in a community of 100 to 2,000 people with an active economic development organization, a relationship with a regional or urban economic development organization, or a city sales tax, part or all of which is dedicated to economic development. The business cannot compete with other established businesses within 15 miles of its location, and cannot be located within 15 miles of a city with a population of 2,000 or more. A microbusiness must be certified by the Department of Commerce and no more than 200 microbusinesses may be certified. The credit is equal to 20% of the new investment (increase) in buildings and depreciable property and new employment (increased compensation for new employees). An unused credit may be carried forward for up to 5 years.
- Property tax relief credit - For tax years 2007 and 2008, corporations which own property in North Dakota which is classified as commercial property may claim a credit of 10% of the property tax or mobile home tax levied on the commercial property, up to a maximum of $1,000. For this credit, this means property taxes before any discount and before any special assessments. Generally, 2006 and 2007 property taxes will be used to claim the credit for tax years 2007 and 2008, respectively. If the credit exceeds the income tax liability for the tax year, the unused credit may be carried forward for up to 5 years. If total income tax credits claimed on the 2007 tax returns (for both corporations and individuals) exceed $7 million as of November 15, 2008, by statute the maximum allowable credit must be reduced for the 2008 tax year.
- Credit for contributions to a qualified endowment - Corporations may claim a credit for making a charitable contribution to a qualified endowment of a qualified nonprofit organization in North Dakota. The tax credit is equal to 40% of the contributions made in a tax year, up to a maximum of $10,000. North Dakota taxable income must be increased by the amount of the contribution, to the extent that the contribution reduced federal taxable income. An unused credit may be carried forward for up to 3 years. If a contribution is recovered by a corporation, the tax credit allowed for that contribution must be added to tax due in the year in which the contribution is recovered.

STATE COMPARISONS

Please note that a comparison of corporation income tax obligations would need to consider, in addition to tax rates, complex variables such as different state definitions of taxable income and circumstances of each corporation.

Corporation Income Tax Collections

Fiscal Year	Net Collections
1998	65,543,025
1999	57,877,194
2000	47,528,001
2001	51,606,853
2002	41,374,297
2003	46,027,577
2004	40,257,083
2005	62,669,889
2006	111,789,587
2007	119,955,748
2008	140,737,698
2009 est.	112,166,000

SOURCE: North Dakota Office of State Tax Commissioner

Historical North Dakota Corporation Income Tax Brackets and Rates

For taxable years beginning on or after January 1, 2007 -
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	2.60% of North Dakota taxable income				
3,000	8,000	$ 78.00	+	4.10%	of the amount over	$ 3,000
8,000	20,000	283.00	+	5.60%	of the amount over	8,000
20,000	30,000	955.00	+	6.40%	of the amount over	20,000
Over 30,000		1,595.00	+	6.50%	of the amount over	30,000

If a corporation elects to use the water's edge method to apportion its income, the corporation will be subject to an additional 3.5% surtax on their North Dakota taxable income.

For taxable years beginning on or after January 1, 2004 and prior to January 1, 2007
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	2.60% of North Dakota taxable income				
3,000	8,000	$ 78.00	+	4.10%	of the amount over	$ 3,000
8,000	20,000	283.00	+	5.60%	of the amount over	8,000
20,000	30,000	955.00	+	6.40%	of the amount over	20,000
Over 30,000		1,595.00	+	7.00%	of the amount over	30,000

If a corporation elects to use the water's edge method to apportion its income, the corporation will be subject to an additional 3.5% surtax on their North Dakota taxable income.

For taxable years beginning on or after January 1, 1983 and prior to January 1, 2004
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	3.00% of North Dakota taxable income				
3,000	8,000	$ 90.00	+	4.50%	of the amount over	$ 3,000
8,000	20,000	315.00	+	6.00%	of the amount over	8,000
20,000	30,000	1,035.00	+	7.50%	of the amount over	20,000
30,000	50,000	1,785.00	+	9.00%	of the amount over	30,000
50,000		3,585.00	+	10.50%	of the amount over	50,000

For taxable years beginning on or after January 1, 1981 and prior to January 1, 1983
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	2.00% of North Dakota taxable income				
3,000	8,000	$ 60.00	+	3.00%	of the amount over	$ 3,000
8,000	20,000	210.00	+	4.00%	of the amount over	8,000
20,000	30,000	690.00	+	5.00%	of the amount over	20,000
30,000	50,000	1,190.00	+	6.00%	of the amount over	30,000
50,000		2,390.00	+	7.00%	of the amount over	50,000

For taxable years beginning on or after January 1, 1978 and prior to January 1, 1981
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	3.00% of North Dakota taxable income				
3,000	8,000	$ 90.00	+	4.00%	of the amount over	$ 3,000
8,000	15,000	290.00	+	5.00%	of the amount over	8,000
15,000	25,000	640.00	+	6.00%	of the amount over	15,000
25,000		1,240.00	+	8.50%	of the amount over	25,000

For taxable years beginning on or after January 1, 1937 and prior to January 1, 1978
North Dakota taxable income:

Over	But not over					
$ 0	$ 3,000	3.00% of North Dakota taxable income				
3,000	8,000	$ 90.00	+	4.00%	of the amount over	$ 3,000
8,000	15,000	290.00	+	5.00%	of the amount over	8,000
15,000		640.00	+	6.00%	of the amount over	15,000

For taxable years beginning on or after January 1, 1923 and prior to January 1, 1937

The state's corporation income tax rate was 3.0% on North Dakota taxable income

Comparison of State Corporation Income Tax Rates
For Tax Year 2008 - As of January 1, 2008

A comparison of tax **obligations** would also need to consider complex variables such as different state definitions of taxable income and circumstances of each corporation.

	Tax Rate (percent) Corporation		Tax Brackets		Tax Rate (percent) Financial Institution		Federal Income Tax Deductible
State	**Lowest**	**Highest**	**Lowest**	**Highest**	**Lowest**	**Highest**	
Alabama	6.5		Flat Rate		6.5		Yes
Alaska	1.0	9.4	$10,000	$90,000	1.0	9.4	No
* Arizona	6.968		Flat Rate		6.968		No
Arkansas	1.0	6.5	$3,000	$100,000	1.0	6.5	No
* California	8.84		Flat Rate		10.84		No
Colorado	4.63		Flat Rate		4.63		No
* Connecticut	7.5		Flat Rate		7.5		No
* Delaware	8.7		Flat Rate		8.7	1.7	No
* Florida	5.5		Flat Rate		5.5		No
Georgia	6.0		Flat Rate		6.0		No
* Hawaii	4.4	6.4	$25,000	$100,000	7.92		No
* Idaho	7.6		Flat Rate		7.6		No
* Illinois	7.3		Flat Rate		7.3		No
Indiana	8.5		Flat Rate		8.5		No
* Iowa	6.0	12.0	$25,000	$250,000	5.0		Yes
* Kansas	4.0		Flat Rate		2.25		No
* Kentucky	4.0	6.0	$50,000	$100,000			No
* Louisiana	4.0	8.0	$25,000	$200,000			Yes
* Maine	3.5	8.93	$25,000	$250,000	1.0		No
Maryland	8.3		Flat Rate		8.3		No
* Massachusetts	9.5		Flat Rate		10.5		No
* Michigan	4.95		Flat Rate				No
* Minnesota	9.8		Flat Rate		9.8		No
Mississippi	3.0	5.0	$5,000	$10,000	3.0	5.0	No
* Missouri	6.25		Flat Rate		7.0		Yes
* Montana	6.75		Flat Rate		6.75		No
* Nebraska	5.58	7.81	$50,000				No
Nevada	no tax						No
* New Hampshire	8.5		Flat Rate		8.5		No
* New Jersey	9.0		Flat Rate		9.0		No
New Mexico	4.8	7.6	$500,000	$1,000,000	4.8	7.6	No
* New York	7.5		Flat Rate		7.5		No
* North Carolina	6.9		Flat Rate		6.9		No
*** NORTH DAKOTA**	**2.6**	**6.5**	**$3,000**	**$30,000**	**7.0**		**No**
* Ohio	5.1	8.5	$50,000				No
Oklahoma	6.0		Flat Rate		6.0		No
* Oregon	6.6		Flat Rate		6.6		No
* Pennsylvania	9.99		Flat Rate				No
* Rhode Island	9.0		Flat Rate		9.0		No
* South Carolina	5.0		Flat Rate		4.5		No
* South Dakota	no tax				6.0	0.25	No
Tennessee	6.5		Flat Rate		6.5		No
* Texas							No
* Utah	5.0		Flat Rate		5.0		No
* Vermont	6.0	8.5	$10,000	$250,000			No
* Virginia	6.0		Flat Rate		6.0		No
Washington	no tax						No
West Virginia	8.5		Flat Rate		8.5		No
Wisconsin	7.9		Flat Rate		7.9		No
Wyoming	no tax						No
* District of Columbia	9.975		Flat Rate		9.975		No

* See footnotes on following page.

Nevada,Washington and Wyoming do not have state corporate income taxes.

Footnotes for Comparison of State Corporate Income Tax Rates

Arizona Minimum tax is $50 for corporations and financial institutions.

California Minimum tax is $800 for corporations and financial institutions. The tax rate on S-Corporations is 1.5% (3.5% for banks).

Connecticut Or 3.1 mills per dollar of capital stock and surplus (maximum tax $1 million) or $250. Applies to corporations and financial institutions.

Delaware The marginal rate decreases over 4 brackets ranging from $20 to $650 million in taxable income for financial institutions. Building and loan associations are taxed at a flat 8.7%.

Florida Applies to both corporations and financial institutions. Or 3.3% Alternative Minimum Tax. An exemption of $5,000 is allowed.

Hawaii Applies to corporations and financial institutions. Capital gains are taxed at 4%. There is also an alternative tax of 0.5% of gross annual sales.

Idaho Applies to corporations and financial institutions. Minimum tax is $20. An additional tax of $10 is imposed on each return.

Illinois Applies to corporations and financial institutions. Includes a 2.5% personal property replacement tax.

Iowa Applies to corporations and financial institutions. Fifty percent of the federal income tax is deductible.

Kansas Plus a surtax of 3.35% (2.125% for banks) on taxable income in excess of $50,000 ($25,000).

Kentucky Minimum tax of $175 for corporations, or, an annual Limited Liability Tax for all corporations with over $3 million in gross receipts. Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Louisiana Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Maine Or, the Maine Alternative Minimum Tax for corporations.

Massachusetts Applies to corporations and financial institutions - rate includes a 14% surtax, as does the following: an additional tax of $2.60 per $1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of $456.

Michigan For corporations, the New Michigan Business Tax. First $45,000 of tax base exempt. Plus, 0.8% of modified gross receipts (receipts less purchases from other firms) on receipts of $350,000 or more. A surcharge of 21.99% applies. Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Minnesota Plus a 5.8% tax on any Alternative Minimum Taxable Income over the base tax. Applies to corporations and financial institutions.

Missouri Fifty percent of the federal income tax is deductible. Applies to corporations and financial institutions.

Montana Applies to corporations and financial institutions. A 7% tax on taxpayers using water's edge combination. Minimum tax is $50.

Nebraska Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

New Hampshire Applies to corporations and financial institutions. Plus a 0.75% tax on the enterprise base (total compensation, interest and dividends paid) for businesses with gross income over $150,000 or base over $75,000. Business profits tax is imposed on both corporations and unincorporated associations with gross income over $50,000.

New Jersey Applies to corporations and financial institutions. The rate reported in the table is the corporation business franchise tax rate. Corporations with net income under $100,000 are taxed at 7.5%. Corporations with net income under $50,000 are taxed at 6.5% A 4% surtax applies through July 1, 2009. The minimum tax is $500. An Alternative Minimum Assessment based on Gross Receipts applies if greater than corporate franchise tax. Banking and financial corporations are subject to the franchise tax.

New York Applies to corporations and financial institutions. Or 1.78 mills per dollar of capital (up to $350,000); or a 1.5% alternative minimum tax; or a minimum tax of $1,500 to $100 depending on payroll size; if any of these is greater than the tax computed on net income. Small corporations with income under $290,000 are subject to lower rates of tax on net income. An additional tax of 0.9 mills per dollar of subsidiary capital is imposed on corporations. For banks, the alternative bases of tax are 3% of alternative net income; or up to 1/50th mill of taxable assets; or a minimum tax of $250.

North Carolina Financial institutions are also subject to a tax equal to $30 per one million in assets.

North Dakota Minimum tax for financial institutions is $50. Federal income tax is deductible for financial institutions.

Ohio Rates shown are for the Franchise tax, which is being phased out through 2010. Current rates apply to 40% of the liability, or 40% of 4 mills times the value of the taxpayer's issued and outstanding share of stock with a maximum payment of $150,000; or $50 to $1,000 minimum tax, depending on worldwide gross receipts. The Commercial Activity Tax (CAT) equals $150 for gross receipts between $150,000 and $1 million, plus 0.26% of gross receipts over $1 million. The CAT applies to 60% of receipts through March 31, and 80% for the remainder of the year. Banks will pay the Franchise tax. An additional litter tax is imposed equal to 0.11% on the first $50,000 of taxable income, 0.22% on income over $50,000; or 0.14 mills on net worth.

Oregon Minimum tax is $10 for corporations and financial institutions.

Pennsylvania Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

Rhode Island Minimum tax for corporations is $500. For banks, the alternative tax is $2.50 per $10,000 of capital stock ($100 minimum).

South Carolina Savings and Loans are taxed at a 6% rate.

South Dakota Minimum tax for banks is $500 per location.

Texas Applies to corporations and financial institutions. Texas imposes a Franchise Tax, known as the margin tax. It is imposed at 1.0% (0.5% for retail or wholesale entities) of gross revenues over $300,000, with a variable discount allowed for businesses with revenues between $300,000 and $900,000.

Utah Minimum tax is $100 for corporations and financial institutions..

Vermont Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income. Minimum tax is $250 for corporations.

Virginia State and national banks subject to the state's franchise tax on net capital are exempt from the income tax.

District of Columbia Applies to corporations and financial institutions. Minimum tax is $100. Includes surtax.

Note: Nevada, Washington, and Wyoming do not have state corporate income taxes.

SOURCE: Compiled by FTA from various sources.

ESTATE TAX

CURRENT LAW

Imposition and Rate

The estate tax is a tax on the value of an estate transferred at death. North Dakota's estate tax is perpetually "federalized". North Dakota's definition of a deceased person's "taxable estate" is identical to the federal definition and North Dakota recognizes all federal exemptions and deductions.

North Dakota's estate tax is equivalent to the credit for state death taxes allowed on the federal estate tax return (or a percentage of that credit equal to the percentage of property located in North Dakota). On the federal return, the credit for state death taxes is allowed as a credit against the federal tax liability. The estate pays the amount of this credit to the state. This method of determining state estate taxes ensures that estates pay no more in total estate taxes than the estate's federal tax liability. The tax is payable without interest for 15 months from the date of death.

The estate tax is administered and collected by the Tax Commissioner.

Distribution of Revenue

Revenue from the tax is distributed on a quarterly basis by the state to the counties and cities in which the property of the estate is located.

Federal Legislation
As a result of federal estate tax law changes, the North Dakota estate tax that is based on the state death tax credit allowable on the federal return has been phased out for estates of decedents whose death occurs after December 31, 2004. Future changes to the state or federal estate tax laws will determine whether North Dakota estate tax is due.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session.
- The definition of taxable estate is based on the federal definition. The estate tax was determined by subtracting the federal tax paid from the federal taxable estate, then computing a tax using a tax table established in the new law.

1977 Session.
- The legislature allowed the following state exemptions and deductions to the value of the federal taxable estate: an exemption of $200,000, a deduction for federal estate taxes paid, and an exemption for certain gifted property. The legislature also provided that the tax was either the amount of tax credit for state death taxes on the federal return, or a tax computed by use of a tax table, whichever was greater.

1979 Session.
- The rate table was repealed and the law was amended so that the state estate tax is equal to the credit for state death taxes on the federal estate tax return.

1991 Session.
- The automatic estate tax lien was repealed.

1997 Session.
- The requirement for depositories to file an inventory of the contents of a safe deposit box and for the filing of a notice of transfer of the decedent's assets was repealed.

1999 Session.
- The requirement for the register of deeds to forward copies of death certificates and property descriptions was repealed.

Estate Tax Collections

Calendar Year	Total Collections
1998	$ 4,718,269
1999	7,420,920
2000	6,079,686
2001	5,237,136
2002	5,407,080
2003	7,389,834
2004	3,173,650
2005	2,109,496
2006	1,086,192
2007	27,801
2008	87,805

SOURCE: North Dakota Office of State Tax Commissioner

FINANCIAL INSTITUTION TAX

CURRENT LAW

Imposition and Rates

The financial institution tax is imposed on banks, trust companies, building and loan associations, bank holding companies, production credit associations, leasing companies, and other financial institutions.

The financial institution tax is imposed on every financial institution for the privilege of transacting, or the actual transacting of, business in North Dakota and is based upon and measured by the financial institution's taxable income. If a financial institution conducts business both within and without North Dakota, the financial institution must apportion its business income to North Dakota according to the apportionment provisions.

The tax liability is determined by multiplying North Dakota taxable income by seven percent (7%), with a minimum tax of fifty dollars ($50.00). This amount, less credits allowed is divided between the State General Fund and the financial institution tax distribution fund. The net tax payable to the State General Fund must be paid on or before April 15 of the year following the end of the taxable year. The net tax payable to the financial institution distribution fund must be paid on or before January 15 of the second year following the end of the taxable year. Both payments must be made to the Office of State Tax Commissioner.

If a financial institution elects and is granted Subchapter S corporation status for federal income tax purposes, the Subchapter S status is not recognized for financial institution tax purposes and the corporation must file a financial institution tax return and pay the tax. In this case, a shareholder—limited to an individual, estate or trust—is allowed an adjustment to income in computing the shareholder's North Dakota income tax liability. The adjustment, which is equal to the portion of the income passed through to the shareholder and subject to North Dakota income tax, prevents the financial institution's income from being taxed at the financial institution level and the individual, estate or trust level.

HISTORICAL OVERVIEW

Significant Changes in Law

1979 Session.
- The 1% business privilege tax paid by individuals, estates, trusts, partnerships and corporations doing business in the state was repealed.

1991 Session.
- A state net operating loss was allowed to be carried forward.
- Out-of-state banks were allowed to acquire a North Dakota bank if the acquiring company was in a reciprocating state and the Tax Commissioner was authorized to determine a fair method of reporting income to North Dakota.
- Privilege taxes were authorized on North Dakota branches if the U.S. Congress authorized interstate branch banking.

1995 Session.
- Interstate banking, in-state branching, and interstate branching were authorized. A trust company was allowed to establish for itself and its subsidiaries places of business within or outside North Dakota.

1997 Session.
- Taxation of banks, trust companies and building or savings and loan associations was repealed and replaced with a financial institution tax.

1999 Session.
- Cities were provided authority to create "renaissance zones," which allowed opportunities for various income exemptions and tax credits for investments in approved renaissance zones.

2001 Session.
- An exemption was provided for income from property located in a renaissance zone and owned or leased for either a business or investment purpose. This exemption also extended to qualifying rehabilitations of residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed $250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

2003 Session.

- Financial institutions tax changed to maintain the deduction for federal income taxes paid. The deduction had previously been allowed by reference to the income tax law. The change was necessary because the deduction was repealed for income tax.
- For tax years after December 31, 1999, the exclusion for the North Dakota domestic dividend was repealed based on a North Dakota Supreme Court ruling.

2005 Session.

- A new financial institution tax credit was created for making a contribution to fund a tuition scholarship for participation in the Rural Leadership North Dakota program conducted through the North Dakota State University Extension Service.
- Financial institutions that are members of a unitary group, and conduct 100% of their business in North Dakota were required to file a combined report.

2007 Session.

- Changes were made to filing requirements for "short period" returns, i.e., returns filed for a tax year that is less than 12 months. Such returns must be filed by the later of April 15, or the due date prescribed by the IRS. For a short period that is less than 120 days, no estimated payment of tax is required.

Financial Institution Tax*

Tax Year	Total	To Counties	To General Fund
1998	9,949,737	7,132,518	2,817,219
1999	10,521,920	7,515,657	3,006,263
2000	10,800,647	7,714,748	3,085,899
2001	10,195,583	6,152,158	4,043,425
2002	10,627,138	6,808,992	3,818,146
2003	10,241,423	7,135,229	3,106,194
2004	9,690,881	6,830,163	2,860,718
2005	15,587,316	10,005,681	5,581,635
2006	18,575,329	12,558,064	6,017,265

* The tax year 2007 collections are not final at the time of printing this publication.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by 7%. This amount, which may not be less than $50.00, is divided between the state general fund and the financial institution tax distribution fund. The general fund receives 2/7 of the tax, while the financial institution tax distribution fund receives 5/7 of the tax.

The tax collected in the financial institution tax distribution fund is distributed to the counties on or before March 1 each year.

Distribution of Financial Institution Tax*

County	Percentage	County	Percentage	County	Percentage
Adams	0.2968%	Grant	0.3913%	Ramsey	2.5621%
Barnes	2.2119%	Griggs	0.9247%	Ransom	1.3457%
Benson	0.3919%	Hettinger	0.5873%	Renville	0.3585%
Billings	0.0310%	Kidder	0.4219%	Richland	2.7733%
Bottineau	1.8718%	LaMoure	0.7904%	Rolette	1.0018%
Bowman	1.1325%	Logan	0.7964%	Sargent	1.3122%
Burke	0.4819%	McHenry	0.5434%	Sheridan	0.2813%
Burleigh	6.0739%	McIntosh	1.1903%	Sioux	0.0054%
Cass	19.2636%	McKenzie	1.1826%	Stark	4.2348%
Cavalier	1.6172%	McLean	1.3533%	Steele	0.5824%
Dickey	0.9295%	Mercer	1.3538%	Stutsman	3.4793%
Divide	0.8446%	Morton	2.1364%	Towner	0.5375%
Dunn	0.4347%	Mountrail	1.7976%	Traill	0.9871%
Eddy	0.1709%	Nelson	1.0597%	Walsh	2.5128%
Emmons	1.2017%	Oliver	0.1855%	Ward	7.5118%
Foster	0.9723%	Pembina	2.1623%	Wells	1.3501%
Golden Valley	0.5355%	Pierce	1.0727%	Williams	4.0541%
Grand Forks	8.6988%				

* Money in the Financial Institution Tax Distribution Fund is divided among the counties based on these percentages.

FUEL TAXES

CURRENT LAW

Imposition, Rates and Administration

Motor Vehicle Fuel Tax (Gasoline and Gasohol). A motor vehicle fuel tax of 23 cents per gallon is imposed on motor vehicle fuel (gasoline and gasohol) sold to retailers and consumers. Consumers who paid the tax but used the fuel in nonlicensed equipment for agricultural or industrial purposes may obtain a partial refund.

Eight cents per gallon is withheld from farmers' refunds. Two cents is deposited into the Agricultural Fuel Tax Fund to promote the use of agricultural products, one cent is deposited into the Ethanol Production Fund for North Dakota ethanol plant incentives, four cents is deposited into an Agricultural Research Fund, and one cent is retained in the Township Highway Aid Fund.

One and one-half cents per gallon is withheld from industrial users' refunds. One-half cent is deposited into the Agricultural Fuel Tax Fund and one cent is retained in the Township Highway Aid Fund.

The state and political subdivisions may obtain a refund of 22 cents per gallon on all motor vehicle fuel used for construction, reconstruction, and maintenance of roads and highways. In this case, one cent is retained in the Township Highway Aid Fund.

The operator of a licensed emergency medical services operation may obtain a refund of 22 cents per gallon on all motor vehicle fuel used by the emergency medical services operation. One cent per gallon is retained in the Township Highway Aid Fund.

Special Fuels Taxes. Special fuels include diesel, kerosene, heating fuel, compressed natural gas (CNG), and liquefied petroleum gas (LPG) known as propane. A special fuels tax of 23 cents per gallon is imposed on all undyed (not red) diesel fuels. The tax also applies to kerosene, CNG, and LPG sold for use in licensed vehicles.

A 4 cents per gallon special fuels excise tax is imposed on dyed (red) diesel fuels and kerosene and a 2% special fuels excise tax is imposed on LPG sold for uses other than in a licensed motor vehicle. The tax is reduced to 2 cents per gallon and 1% respectively for special fuels used as heating fuel through June 30, 2009; beginning July 1, 2009, heating fuels are exempt from tax.

The 23 cents per gallon and the 4 cents per gallon and the 2% special fuels excise tax are not refundable. Consumers using special fuels for a purpose other than in a licensed motor vehicle are urged to purchase dyed (red) diesel fuel subject to the 4 cents per gallon special fuels excise tax in lieu of the 23 cents per gallon tax.

The operator of a licensed emergency medical services operation may obtain a refund of 22 cents per gallon on all special fuel used by the emergency medical services operation. One cent per gallon is retained in the Township Highway Aid Fund.

Aviation Fuel Tax. The aviation fuel tax is imposed on the sale of aviation gasoline and jet fuels at a rate of 8 cents per gallon. Consumers qualify for a refund of the 8 cents per gallon tax. If a refund is granted, the fuel becomes subject to a 4% excise tax on the purchase price of the fuel. The 4% excise tax is deducted from the refund claim at the time of refund.

The operator of a licensed emergency medical services operation may obtain a refund of 8 cents per gallon on all aviation fuel used by the emergency medical services operation.

Tribal Tax. The North Dakota portion of the Standing Rock Sioux Tribe, the Spirit Lake Tribe, and the Three Affiliated Tribes passed ordinances imposing Tribal motor vehicle fuel and special fuel taxes. The ordinances are consistent with North Dakota's state fuel tax laws. The initial implementation date for the Standing Rock Sioux Tribe was January 1, 1999, for the Spirit Lake Tribe that date was November 1, 2006, and for the Three Affiliated Tribes that date was October 1, 2007. The amount to be distributed to the Tribes and to the state is based on the population demographics of the last United States census.

HISTORICAL OVERVIEW

Significant Changes in Law

1977 Session.

- The motor vehicle fuel tax and the special fuels tax rates increased from 7 cents to 8 cents per gallon.

1979 Session.

- The legislature enacted a 4 cents per gallon tax rate for alcohol blended fuel.

1983 Session.

- The motor vehicle fuel tax and the special fuels tax rates increased from 8 cents to 13 cents per gallon.
- The rates were reduced for alcohol blended fuel by 4 cents per gallon through December 31, 1983; 5 cents per gallon for calendar year 1984; 6 cents per gallon for calendar year 1985; and 4 cents per gallon from January 1, 1986 through June 30, 1992.

1985 Session.

- The reduction for alcohol blended fuel was amended to 8 cents per gallon for July 1, 1985 through June 30, 1987 and 4 cents per gallon for July 1, 1987 through December 31, 1992.

1987 Session.

- The motor vehicle fuel tax and special fuels tax rates increased from 13 cents to 17 cents per gallon.

1989 Session.

- The motor vehicle fuel tax rate increased from 17 cents to 20 cents per gallon and the special fuels tax rate increased from 17 cents to 19 cents per gallon.
- The rate reduction for alcohol blended fuel was suspended for July 1, 1989 through June 30, 1991 and replaced with an ethanol production subsidy.
- An additional 1½ cents was withheld from farmers' refunds and deposited in the Agricultural Fuel Tax Fund.
- Enabling legislation was passed to allow the director of the new Department of Transportation to enter the International Fuel Tax Agreement (IFTA) for base state fuel tax licensing and reporting. The State Tax Commissioner retained non-IFTA importer for use tax administration.

1989 Referral Election.

- The tax rate increases passed by the 1989 Legislature were rejected in a Special Election. The tax rates for the motor vehicle fuel tax and the special fuels tax remained 17 cents per gallon.

1991 Session.

- An additional 2 cents per gallon was withheld from farmers' refunds and deposited in the Highway Tax Distribution Fund for incentives to North Dakota ethanol plants.
- The rate reduction for alcohol blended fuel was eliminated.

1993 Session.

- The legislature provided for a "triggered" increase in the motor vehicle fuel tax and special fuels tax depending on the availability of federal highway matching funds. Under this provision the rate increased from 17 cents to 18 cents per gallon for the period December 1, 1993 through December 31, 1995.

1995 Session.

- The legislature continued to "trigger" changes in the motor vehicle fuel tax and special fuels tax rates depending on the availability of additional federal highway matching funds. The rate increased to 20 cents per gallon for the period January 1, 1996 through December 31, 1997.

1997 Session.

- The legislature provided for a permanent 20 cents per gallon motor vehicle fuel tax and special fuels tax through December 31, 1999 and added a provision to the special fuels tax chapter allowing the 2% special fuels excise tax to be charged on fuel dyed for federal motor fuel tax exemption purposes.
- The legislature also revised refund requirements to allow refunds of motor vehicle fuel tax and special fuels tax to industrial fuel users when the fuel was used in nonlicensed equipment on publicly funded projects.
- An additional 4 cents per gallon is withheld from agricultural consumer refund claims for deposit into an agricultural research fund, and the amount withheld for ethanol production incentives was lowered from 2 cents per gallon to 1 cent per gallon.

1999 Session.

- The legislature reenacted the motor vehicle fuel and special fuels tax statutes and increased the taxes to 21 cents per gallon.
- The legislature also repealed the refund provisions for special fuel taxes and enacted a dyed fuel enforcement program. Dyed diesel fuel may not be used in licensed motor vehicles, and in the event of a violation, administrative fees may be assessed.

2001 Session.

- The legislature enacted a decrease in special fuels taxes on diesel fuel containing at least 2% biodiesel fuel by weight. The decrease is contingent upon the opening of a biodiesel refining facility in this state with a production capacity of at least 10 million gallons biodiesel per year. If triggered, the tax on undyed diesel fuel containing biodiesel is reduced by one and five-hundreths cents per gallon, and the tax on dyed diesel fuel containing biodiesel is reduced to one and nine-tenths percent.

2005 Session.

- The legislature provided for an increase in the tax rates for both motor vehicle fuel and special fuels from 21 cents per gallon to 23 cents per gallon.
- E85 was defined and a reduced rate of 1 cent per gallon was imposed on all E85 sold in the state until a total of 1.2 million gallons were sold, at which time the tax rate reverted to the 23 cents motor fuel tax rate.
- A special fuels tax exemption was provided through June 30, 2010, for the sale of hydrogen used to fuel an internal combustion engine or fuel cell.
- Provided for motor vehicle and special fuel tax refunds to Native Americans and established a refund reserve fund for this purpose.

2007 Session.

- Motor fuel refunds are available for emergency medical services.
- The special fuels excise tax rate for all special fuels, except LPG, changed from 2% of the value to 4 cents per gallon.
- The special fuels excise tax rate for heating fuel was reduced to 1% for LPG and 2 cents per gallon for all other special fuels through June 30, 2009; beginning July 1, 2009, heating fuels are exempt from tax.
- Taxpayers are required to report actual physical inventories on a monthly basis.
- The requirement that tax be listed as a separate item, or a statement that the tax is included in the price, on a claim for refund was repealed.

Distribution of Revenue

Tax Types
Motor Vehicle Fuel Tax (23¢ per gallon): 22¢ Highway Tax Distribution Fund 1¢ Township Highway Aid Fund Withheld from farmers' refunds (8¢ per gallon): 1¢ Township Highway Aid Fund 2¢ Agricultural Fuel Tax Fund 1¢ Ethanol Production Fund 4¢ Agricultural Research Fund Withheld from Industrial users' refunds (1½¢ per gallon): 1¢ Township Highway Aid Fund ½¢ Agricultural Fuel Tax Fund Withheld from state or political subdivision and emergency medical services' refunds (1¢ per gallon): 1¢ Township Highway Aid Fund
Special Fuels Tax (23¢ per gallon): 22¢ Highway Tax Distribution Fund 1¢ Township Highway Aid Fund Withheld from emergency medical services' refunds (1¢ per gallon): 1¢ Township Highway Aid Fund
Special Fuels Excise Tax (4¢ or 2¢ per gallon): 100% Highway Tax Distribution Fund
Special Fuels Excise Tax - LPG (2% or 1% of sales price): 100% Highway Tax Distribution Fund
Aviation Fuel Tax (8¢ per gallon): 8¢ Aeronautics Commission Special Fund Withheld from refunds: 4% Aviation fuel excise tax Withheld from emergency medical services' refunds (0¢ per gallon):
Aviation Fuel Excise Tax (4% of sales price): 100% Aeronautics Commission Special Fund
Highway Tax Distribution Fund
• 63% allocated to state highway purposes • 37% allocated to the counties and cities

Fuel Taxes and Fees Disbursements

Fiscal Year	Total Disbursement	Highway Distribution Fund	Township Highway Aid Fund	Agricultural Fuel Tax Fund	Agricultural Research Fund	Aeronautics Commission	State General Fund	Refund Reserve & Cash Bonds
1998	$112,566,368	$98,871,799	$5,337,068	$380,824	$606,790	$617,768	$759,724	$5,992,395
1999	110,664,269	96,651,826	5,270,153	359,554	714,787	403,793	756,137	6,407,500
2000	114,861,740	103,873,179	5,193,618	335,040	666,253	752,894	877,782	2,884,500
2001	115,907,986	104,822,117	5,119,576	308,263	612,415	665,638	876,844	3,175,500
2002	114,131,923	103,789,792	5,092,540	286,162	568,231	738,856	864,879	2,448,000
2003	117,605,841	107,425,949	5,229,933	254,788	505,763	693,293	863,943	2,310,000
2004	121,466,700	111,644,818	5,393,334	236,786	470,999	769,785	889,130	1,757,500
2005	124,242,338	113,931,319	5,424,854	217,782	431,112	941,680	903,721	2,097,000
2006	135,038,662	124,741,234	5,311,819	196,400	389,528	1,130,261	881,277	2,115,000
2007	141,908,527	131,445,986	5,456,111	168,538	334,153	1,171,275	897,502	2,023,020
2008	146,250,694	135,121,096	5,618,871	130,928	259,118	1,276,210	848,165	1,973,028

Motor Vehicle Fuels - Gallons Taxed

Fiscal Year	Total Gallons	Fiscal Refund	Net Gallons
1998	365,493,671	20,189,232	345,304,439
1999	365,389,457	18,854,167	346,535,290
2000	364,472,028	17,610,696	346,861,332
2001	362,611,882	16,117,349	346,494,533
2002	359,176,664	14,965,893	344,210,771
2003	368,973,065	13,418,634	355,554,431
2004	370,923,822	12,338,689	358,585,133
2005	366,130,282	11,182,318	354,947,964
2006	350,779,757	10,510,356	340,269,401
2007	358,118,000	9,511,735	348,606,265
2008	359,794,778	8,206,542	351,588,236

Special Fuels - Gallons Taxed - Per Gallon Tax Rate

Year	Total	Refund	Net
1998	169,591,976	12,449,849	157,142,127
1999	168,218,146	11,715,815	156,502,331
2000	162,411,793	4,658,342	157,753,451
2001	159,884,499	341,613	159,542,886
2002	159,899,715	0	159,899,715
2003	166,462,335	0	166,462,335
2004	177,164,572	0	177,164,572
2005	181,293,961	0	181,293,961
2006	165,456,167	17,221	165,438,946
2007	197,294,786	350,149	196,944,637
2008	208,741,260	659,803	208,081,457

Tribal Fuel Taxes & Fees Disbursement

Fiscal Year	Standing Rock	Spirit Lake	Three Affiliated Tribes
1999	100,519		
2000	278,474		
2001	327,633		
2002	343,463		
2003	322,172		
2004	304,349		
2005	294,870		
2006	273,142		
2007	308,073	103,869	
2008	292,102	257,124	474,053

Special Fuels - Gallons Taxed 2% or $.04 or Heating Fuel

Fiscal Year	2% or $.04/gas	Heating Fuel
1998	334,633,528	
1999	314,146,274	
2000	294,285,846	
2001	317,956,120	
2002	326,123,925	
2003	314,124,119	
2004	322,361,843	
2005	333,386,326	
2006	303,656,667	
2007	341,923,238	
2008	328,112,675	40,917,726

SOURCE: Office of State Tax Commissioner

State Motor Fuel Tax Rates
January 1, 2008

	GASOLINE			DIESEL FUEL			GASOHOL			
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Notes
Alabama [1]	16.0	2.0	18.0	19.0		19.0	16.0	2.0	18.0	Inspection fee
Alaska	8.0		8.0	8.0		8.0	8.0		8.0	
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	[3]
Arkansas	21.5		21.5	22.5		22.5	21.5		21.5	
California	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
Connecticut	25.0		25.0	37.0		37.0	25.0		25.0	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT
Florida [2]	4.0	11.6	15.6	16.8	12.2	29.0	4.0	11.6	15.6	Sales tax added to excise [2]
Georgia	7.5	11.0	18.5	7.5	12.3	19.8	7.5	11.0	18.5	Sales tax added to excise
Hawaii [1]	17.0		17.0	17.0		17.0	17.0		17.0	Sales tax applicable
Idaho	25.0	1	26.0	25.0	1	26.0	22.5	1	23.5	Clean water tax [7]
Illinois [1]	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee [3]
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax applicable [3]
Iowa	20.7		20.7	22.5		22.5	19.0		19.0	
Kansas	24.0		24.0	26.0		26.0	24.0		24.0	
Kentucky	19.6	1.4	21.0	16.6	1.4	18.0	19.6	1.4	21.0	Environmental fee [4] [3]
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Maine	27.6		27.6	28.8		28.8	27.6		27.6	[5]
Maryland	23.5		23.5	24.25		24.25	23.5		23.5	
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.55	17.55	17.0	0.55	17.55	17.0	0.55	17.55	Inspection fee
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	23.0	0.9	23.9	23.0	0.3	23.3	23.0	0.9	23.9	Petroleum fee [5]
Nevada [1]	24.0	0.055	24.055	27.0		27.0	24.0	0.055	24.055	Inspection fee
New Hampshire	18.0	1.625	19.625	18.0	1.625	19.625	18.0	1.625	19.625	Oil discharge cleanup fee
New Jersey	10.5	4.0	14.50	13.5	4.0	17.50	10.5	4.0	14.50	Petroleum fee
New Mexico	17.0	1.875	18.875	21.0	1.875	22.875	17.0	1.875	18.875	Petroleum loading fee
New York	8.0	16.4	24.4	8.0	14.65	22.65	8.0	16.4	24.4	Petro. Tax & Sales tax applicable
North Carolina	29.9	0.25	30.15	29.9	0.25	30.15	29.9	0.25	30.15	[4] Inspection tax
NORTH DAKOTA	**23.0**		**23.0**	**23.0**		**23.0**	**23.0**		**23.0**	
Ohio	28.0		28.0	28.0	28.0	28.0	28.0		28.0	Plus 3 cents commercial
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon [1]	24.0		24.0	24.0		24.0	24.0		24.0	
Pennsylvania	12.0	19.2	31.2	12.0	26.1	38.1	12.0	19.2	31.2	Oil franchise tax
Rhode Island	30.0	1	31.0	30.0	1	31.0	30.0	1	31.0	LUST tax
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
South Dakota [1]	22.0		22.0	22.0		22.0	20.0		20.0	
Tennessee [1]	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
Vermont	19.0	1.0	20.0	25.0	1.0	26.0	19.0	1.0	20.0	Petroleum cleanup fee
Virginia [1]	17.5		17.5	17.5		17.5	17.5		17.5	[6]
Washington [8]	36.0		36.0	36.0		36.0	36.0		36.0	0.5% privilege tax
West Virginia	20.5	11.7	32.2	20.5	11.7	32.20	20.5	11.7	32.20	Sales tax added to excise
Wisconsin [5]	30.9	2.0	32.9	30.9	2.0	32.9	30.9	2.0	32.9	[5] Petroleum Insp. Fee
Wyoming	13.0	1	14.0	13.0	1	14.0	13.0	1	14.0	License tax
Dist. of Columbia	20.0		20.0	20.0		20.0	20.0		20.0	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	[7] LUST tax

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Tax rates do not include local option taxes. In AL, 1-3 cents; HI, 8.8 to 18.0 cents; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4 to 9 cents; OR, 1 to 3 cents; SD and TN, 1 cent; and VA 2%.

(2) Local taxes for gasoline and gasohol vary from 10.2 cents to 18.2 cents. Plus a 2.07 cent per gallon pollution tax.

(3) Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IN-11 cents, KY-2%(g) 4.7% (d).

(4) Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5 cents + 7%.

(5) Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.

(6) Large trucks pay an additional 3.5 cents.

(7) Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the maximum 10% ethanol).

(8) Tax rate scheduled to increase to 37.5 cents on July 1, 2008.

GAMING TAXES

CURRENT LAW

Imposition and Rates

Gaming Taxes. A gaming tax is levied each quarter on the total adjusted gross proceeds from games of chance conducted by licensed organizations. "Adjusted gross proceeds" is gross proceeds less prizes, North Dakota pull tab and bingo card excise taxes, and federal excise tax. The gaming tax rates are:

Adjusted Gross Proceeds	Rate
Up to $ 200,000	5%
$ 200,000 to $ 400,000	10%
$ 400,000 to $ 600,000	15%
Over $ 600,000	20%

In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs and a 3% excise tax is imposed on gross proceeds from bingo card sales. The Attorney General administers the taxes.

Pari-mutuel Taxes. On the first $11 million wagered a pari-mutuel tax is levied upon total wagers placed at live and simulcast (off-track betting) race performances as follows:

- 2% of total wagers in the pari-mutuel pools for win, place and show.
- 2.5% of total wagers in the pari-mutuel pool for other wagers combining two or more horses.

In addition, 1.5% of all wagers is deducted for deposit in three special funds.

Pari-mutuel Taxes on wagering handle in excess of $11 million in each biennium, one-sixteenth of one percent must be paid to the commission to be deposited in the purse fund; one-sixteenth of one percent must be paid to the commission to be deposited in the promotion fund; one-sixteenth of one percent must be paid to the commission to be deposited in the breeders' fund; and one-sixteenth of one percent must be paid to the state treasurer to be deposited in the general fund.

Pari-mutuel taxes and special funds are administered by the North Dakota Racing Commission.

Gaming Regulation

Certain organizations which conduct only limited sports pools, raffles, bingo, paddlewheels, twenty-one, or poker may be issued a local permit or charity local permit by a city or county.

In other instances, organizations must receive a license from the Attorney General to conduct games. The maximum number of sites an organization may operate is 25. The Attorney General conducts criminal history record checks of all potential new employees. Persons who have committed any felony or certain misdemeanor offenses are prohibited from being an employee in the gaming industry.

All net proceeds from games must be disbursed to educational, charitable, patriotic, fraternal, religious or public-spirited uses. "Net proceeds" is adjusted gross proceeds less allowable expenses and gaming tax. "Allowable expenses" per quarter are generally limited to 51% of the first $200,000 of adjusted gross proceeds and 45% of adjusted gross proceeds over $200,000, plus 2.5% of gross proceeds of pull tabs and cost of video surveillance equipment.

Organizations may conduct games of poker, twenty-one, punchboards, pull tabs, bingo, raffles, calcuttas, paddlewheels, and sports pools. Video surveillance systems are required at sites where twenty-one wagers exceed $2 and gross proceeds from twenty-one activity exceed $10,000 per quarter. Organizations may use dispensing devises to conduct pull tabs and have bar employees redeem players' winning pull tabs.

Distribution of Revenue

Gaming Taxes. Revenue from the gaming and excise taxes is deposited in the State General Fund. For the 2005-07 biennium, the legislature appropriated up to $617,000 of these taxes for cities and counties for gaming enforcement.

Pari-mutuel Taxes. Revenue from the pari-mutuel tax is distributed to the State General Fund. Revenues from the deductions are deposited in special funds used for promotion of the racing industry in North Dakota. These funds are the Purse Fund, the Breeders' Fund and the Race Promotion Fund. Unclaimed tickets and breakage are retained in the Race Promotion Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1977 Session.
- Bingo, raffles, pull tabs, punchboards and sports pools were legalized.
- The gaming tax was established at 3% of adjusted gross proceeds.

1979 Session.
- The gaming tax rate was increased from 3% to 5% of adjusted gross proceeds.

1981 Session.
- The game of twenty-one with a $2 maximum wager was legalized.

1983 Session.
- The tax rate was changed from 5% of adjusted gross proceeds to 5% on the first $600,000 of adjusted gross proceeds and 20% on adjusted gross proceeds over $600,000 per quarter.

1987 Session.
- The legislature legalized games of poker and on-track pari-mutuel wagering.

1989 Session.
- The game of calcuttas for certain North Dakota sporting events was legalized.
- The maximum wager for the game of twenty-one was increased from $2 to $5.
- Off-track simulcast pari-mutuel betting was legalized.
- The legislature changed the gaming tax rates on adjusted gross proceeds.
- A 2% excise tax was imposed on pull tab gross proceeds.

1991 Session.
- The game of paddlewheels was legalized with a $2 maximum wager.
- Employees of bars were authorized to assist organizations that conduct pull tabs using dispensing devices.
- The State Gaming Commission was created.

1993 Session.
- The excise tax on pull tab gross proceeds was increased from 2% to 4.5%.
- Organizations were required to install a video surveillance system at certain sites for the game of twenty-one.

1995 Session.
- The work permit system was replaced by a law that enables the Attorney General's Office to conduct criminal history record checks of all potential new employees of organizations and distributors.
- Two and one-half percent of gross proceeds of pull tabs was added to the allowable expense limit for organizations.

1997 Session.
- For the game paddlewheels, in which prizes are a variable multiple of the players' wagers, chips rather than paper tickets were authorized to be used.
- The organizations' allowable expense limit was increased for capital expenditures for security or video surveillance equipment.
- The license fee for manufacturers' of pull tabs, paper bingo cards, and or dispensing devices was increased to $4,000.
- The Department of Human Services received an appropriation of $150,000 to outsource contract for compulsive gambling prevention, awareness, crises intervention, rehabilitation, and treatment services.

1999 Session.
- The maximum monthly rent that an organization may pay a bar owner for conducting pull tabs or operating a dispensing device on a site increased.
- The attorney general was authorized to require certain organizations to make estimated gaming and excise tax payments.

2001 Session.
- Bingo halls and on-site food concessions were restricted from operating between the hours of 12 midnight Saturday through 12 noon on Sunday.
- Employees of bars were authorized to sell raffle tickets for organizations that are authorized to conduct games at those bars.
- Manufacturers of paper bingo cards and pull tabs were generally required to sell their products to all licensed distributors.
- The wager limit was increased from $5 to $25.

2003 Session.
- Authority was granted to the Attorney General's Office to allow an organization to pay delinquent tax, interest, and penalty on an installment plan.
- The license fee for manufacturers of pull tab dispensing devices only was reduced from $4,000 to $1,000.
- Employees of bars were authorized to provide limited assistance to organizations in the conduct of sports pools.

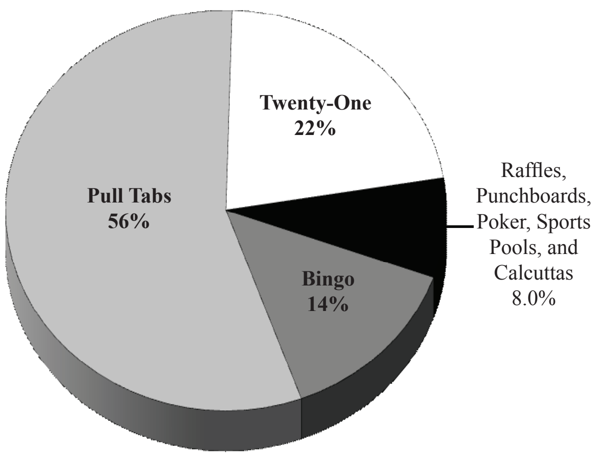
2005 Session.

- For a raffle, on not more than one occasion per year a licensed organization may, at the request of a winning player, exchange a merchandise prize valued at not more than $25,000 for a cash prize.

2007 Session.

- Organizations that conduct bingo are no longer required to collect sales tax on bingo cards sold. The sales tax was replaced with a lower 3% excise tax on the gross sales of bingo cards.
- The single cash prize limit for raffles was increased from $1,000 to $4,000 and the total cash prizes in a day was increased from $3,000 to $4,000.
- Also, licensed organizations are allowed, at their discretion, to exchange a merchandise prize valued at not more than $25,000 for a cash prize on two occasions per year.

Percentage Breakdown By Game
Total "Gaming" Tax Revenue
Fiscal Year 2007



SOURCE: Attorney General's Office, Gaming Division.

Gaming Tax Collections
Levied on Total Adjusted Gross Proceeds

Fiscal Year	Total Collections
1998	3,345,000
1999	3,056,000
2000	3,178,000
2001	2,965,000
2002	3,520,000
2003	3,537,000
2004	3,432,000
2005	3,361,000
2006	3,010,000
2007	2,940,000
2008 (estimate)	3,215,000

Excise Tax Collections
Levied on Gross Proceeds of Pull Tabs

Fiscal Year	State General Fund
1998	8,201,000
1999	7,473,000
2000	7,291,000
2001	7,041,000
2002	6,774,000
2003	6,715,000
2004	6,483,000
2005	6,361,000
2006	6,080,000
2007	5,963,000
2008 (estimate)	7,055,000

Pari-mutuel Racing Tax Collections*
Levied on On- and Off-Track Horse Racing

Fiscal Year	State General Fund
1997	99,000
1998	143,000
1999	245,000
2000	2,971,000
2001	3,875,000
2002	3,606,000
2003	4,461,000
2004	111,964
2005	253,268
2006	44,739
2007	184,317

* Horse racing taxes are deposited in the General Fund. Several other portions of wagers are distributed to other racing-related funds and are not included in the table.

SOURCE: Attorney General's Office, Gaming Division; and North Dakota Racing Commission.

CURRENT LAW

Individual Income Tax

Filing Requirements

Every resident of North Dakota who has a federal income tax filing requirement is required to file a North Dakota income tax return.

Every nonresident who has a federal income tax filing requirement and derives income from North Dakota (except interest and dividends from nonbusiness sources, pensions and annuities) is required to file a North Dakota income tax return. There are exceptions for certain Native Americans, interstate transportation employees, and Minnesota and Montana residents.

An individual income tax return is due the 15th day of the 4th month following the end of the tax year.

Choice of Methods

Two filing methods are available to individuals:
- Main method (on Form ND-1)
- Optional method (on Form ND-2)

The same filing status (that is, single, married filing jointly, head of household, etc.) used for federal purposes must be used when filing for state purposes.

Main Method (Form ND-1)

Approximately 98% of all individuals who file a North Dakota income tax return use the main method, Form ND-1. The main method usually yields a lower tax liability than the optional method [See Optional Method (Form ND-2) later.]

Taxable Income. Under the main method, North Dakota taxable income for most individuals will equal federal taxable income. For some individuals, North Dakota taxable income must be calculated by adjusting federal taxable income by:
- Adding a lump-sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a passthrough entity subject to North Dakota's financial institution tax.
- Adding a charitable contribution deducted from federal taxable income on which the North Dakota planned gift tax credit is based.
- Subtracting 30% of a net long-term capital gain allocable to North Dakota.
- Subtracting interest income from U.S. obligations.
- Subtracting exempt income of a Native American.
- Subtracting retirement, unemployment, and sick pay benefits from the U.S. Railroad Retirement Board.
- Subtracting income from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting income exempted under the new or expanding business exemption.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting the pay received by a nonresident for service in the U.S. armed forces.
- Subtracting up to $10,000 of medical expenses and lost wages for donating a human organ.
- Subtracting the amount of a taxable signing bonus, moving expense reimbursement, or a nontypical fringe benefits received for filling an employment position eligible for the workforce recruitment credit.
- Subtracting up to $5,000 ($10,000, if joint return) if contributions to a North Dakota College SAVE account.

Tax Rates. Under the main method, the applicable tax rates depend on the taxpayer's filing status. The tax rates applicable to each filing status for the 2008 tax year are as follows:

Single

ND taxable income			Tax rate
First	$	32,550	2.1%
Next	$	46,300	3.92%
Next	$	85,700	4.34%
Next	$	193,150	5.04%
Over	$	357,700	5.54%

Married filing jointly or qualifying widow(er)

ND taxable income			Tax rate
First	$	54,400	2.1%
Next	$	77,050	3.92%
Next	$	68,850	4.34%
Next	$	157,400	5.04%
Over	$	357,700	5.54%

Married filing separately

ND taxable income			Tax rate
First	$	27,200	2.1%
Next	$	38,525	3.92%
Next	$	34,425	4.34%
Next	$	78,700	5.04%
Over	$	178,850	5.54%

Head of household

ND taxable income			Tax rate
First	$	43,650	2.1%
Next	$	69,000	3.92%
Next	$	69,750	4.34%
Next	$	175,300	5.04%
Over	$	357,700	5.54%

The income brackets are indexed for inflation each year. A 3-year income averaging method is available for calculating the tax on farm income if the taxpayer elects to use the federal 3-year income averaging method.

Nonresident Tax Calculation. Under the main method, residents and nonresidents calculate North Dakota taxable income the same way. For a nonresident, however, the tax calculated on North Dakota taxable income (which includes income from all sources) is multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income (reduced by interest from U.S. obligations and nonresident military pay).

Credits. Tax credits are available under the main method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Making a planned gift to a qualified North Dakota nonprofit organization.
- Blending biodiesel fuel as a wholesaler.
- Adding equipment necessary to sell biodiesel fuel as a retailer.
- Limited "marriage penalty" relief for eligible joint filers.
- Employing eligible college interns in North Dakota.
- Hiring new employees or acquiring new tangible personal property by eligible North Dakota business.
- Conducting eligible research activity in North Dakota.
- Investing in an eligible North Dakota angel fund.
- Hiring new employees to fill hard-to-fill positions in North Dakota.
- Owning an interest in a passthrough entity that invests in a North Dakota endowment fund.

Property tax relief credits. For the 2007 and 2008 income tax years, two separate credits—one for residential and agricultural property and the second for commercial property—are allowed to eligible property owners based on eligible property taxes paid for the 2006 and 2007 property tax years, respectively.

Optional Contributions. A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees For North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

Optional Method (Form ND-2)

Only about 2% of all individuals who file a North Dakota income tax return use the optional method, Form ND-2. This method generally yields a higher tax than the main method. There are a number of special deductions and credits allowed only under the optional method that may benefit the taxpayer. In most cases, these are not enough to offset the higher tax rates that apply under this method. It is recommended that taxpayers compare the tax under the main and optional methods to see which one yields the lowest tax.

Taxable Income. Under the optional method, North Dakota taxable income is calculated by adjusting federal taxable income by:

- Adding interest income earned on state and local government obligations (except North Dakota).
- Adding state and local income taxes deducted on the federal return.
- Adding a lump sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting state and local income tax refunds included in income on the federal return.
- Subtracting federal income taxes paid.
- Subtracting $300 if the filing status is married filing jointly, head of household, or surviving spouse.
- Subtracting $1,750 for an adopted child under the age of 21 in the year the adoption becomes final.

- Subtracting up to $1,000 of the costs of adopting a child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act in the year the adoption becomes final.
- Subtracting $750 for an adopted child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act.
- Subtracting medical expenses not allowed on the federal return due to the 7.5% limitation.
- Subtracting retirement, unemployment, and sick pay benefits from the U.S. Railroad Retirement Board.
- Subtracting up to $5,000 of military retirement benefits; federal retirement benefits; and North Dakota firefighter, police and highway patrol retirement benefits.
- Subtracting interest from U.S. obligations.
- Subtracting up to $300 of interest ($600 if joint return) from North Dakota financial institutions.
- Subtracting the gain on the sale or exchange of stock of an eligible corporation that relocates significant operations to North Dakota and generates new wealth in the state.
- Subtracting income exempted under the new or expanding business exemption.
- Subtracting income from the sale or lease of farmland under the Beginning Farmer Program.
- Subtracting exempt income of a Native American.
- Subtracting a gain recognized on property subject to eminent domain sale or transfer.
- Subtracting income from a passthrough entity subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting up to $1,000 of pay received for service in the U.S. armed forces.
- Subtracting up to $300 per month of pay received for overseas service in the U.S. armed forces.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting up to $10,000 of medical expenses and lost wages for donating a human organ.
- Subtracting the amount of a taxable signing bonus, moving expense reimbursement, or nontypical fringe benefits received for filling an employment position eligible for the workforce recruitment credit.
- Subtracting up to $5,000 ($10,000, if joint return) of contributions to a North Dakota College SAVE account.

Tax Rates. On the optional method form, the following tax rates apply regardless of the taxpayer’s filing status.

ND taxable income			Tax rate
First	$	3,000	2.67%
Next	$	2,000	4.00%
Next	$	3,000	5.33%
Next	$	7,000	6.67%
Next	$	10,000	8.00%
Next	$	10,000	9.33%
Next	$	15,000	10.67%
Over	$	50,000	12.00%

Nonresident Tax Calculation. Under the optional method, a nonresident calculates North Dakota taxable income by including only the items of income and loss sourced in North Dakota. The personal and dependency exemptions, and the standard deduction or itemized deductions, claimed for federal tax purposes are multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income.

Credits. Tax credits are available under the optional method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Contributing to a qualifying nonprofit private high school or college in North Dakota.
- Paying premiums for a long-term care insurance policy.
- Installing a geothermal, solar, or wind energy device on property owned or leased in North Dakota.
- Investing in a certified nonprofit development corporation.
- Paying wages to a developmentally disabled or chronically mentally ill employee.
- Making a planned gift to a qualified North Dakota nonprofit organization.
- Blending biodiesel fuel as a wholesaler.
- Adding equipment necessary to sell biodiesel fuel as a retailer.
- Employing eligible college interns in North Dakota.
- Hiring new employees or acquiring new tangible personal property by eligible North Dakota business.
- Conducting eligible research activity in North Dakota.
- Investing in an eligible North Dakota angel fund.

- Hiring new employees to fill hard-to-fill positions in North Dakota.
- Owning an interest in a passthrough entity that invests in a North Dakota endowment fund.

Property tax relief credits. For the 2007 and 2008 income tax years, two separate credits—one for residential and agricultural property and the second for commercial property—are allowed to eligible property owners based on eligible property taxes paid for the 2006 and 2007 property tax years, respectively.

Optional Contributions. A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees for North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

Payment of Estimated Tax

Individuals are required to pay estimated North Dakota income tax if all of the following conditions apply:

1. The individual is required to pay estimated federal income tax; AND
2. The individual's previous year's net tax liability was $500 or greater; AND
3. The individual expects to owe, after subtracting withholding, at least $500; AND
4. The individual expects withholding to be less than the smaller of:
   a. 90% of current year's net tax liability or
   b. 100% of previous year's net tax liability. (This does not apply if the individual moves into North Dakota during the previous year.)

Withholding

An employer is required to withhold North Dakota income tax from the wages of an employee if federal income tax is required to be withheld from such wages. Wages paid by farmers and ranchers are exempt from this requirement.

North Dakota withholding is computed using one of the following three methods:

- **Method 1: Percentage of Wages (Primary Method)**
  This method is similar to the IRS's Percentage Method in Publication 15 (Circular E). It is the method recommended for use in all cases.
- **Method 2: Percent of Federal Withholding (Alternative Method)**
  This method is an alternative to Method 1, the Primary Method. The federal income tax withheld from the wages is multiplied by a flat rate determined by the Office of State Tax Commissioner. This method generally works for employees with wages under $18,000, if single, or $30,000, if married. Use of this method for employees with wages over the $18,000 or $30,000 level is permitted, but will result in too much withholding.
- **Method 3: Withholding Tables**
  This method is identical to Method 1, the primary method, except that no calculations are required. Instead, a table is used to look up the withholding amount.

Employers must register with the North Dakota Office of State Tax Commissioner. Forms to register for income tax withholding, sales and use tax permit, unemployment insurance and workers compensation purposes are part of a consolidated registration package.

New Jobs Training Program. Under the New Jobs Training Program, a new or expanding primary sector business may use income tax withheld from new employees to pay for the cost of training the employees. Application for the program is made through Job Service North Dakota.

Fiduciary Income Tax (Estates and Trusts)

A fiduciary for a resident trust or estate, or a fiduciary for a nonresident trust or estate which derives income from North Dakota sources, must file a North Dakota fiduciary income tax return (Form 38) if required to file a federal fiduciary income tax return.

Two filing methods are available on the fiduciary income tax return: the Main Method (Schedule 1) and the Optional Method (Schedule 2), which are the same as the two methods for individual income tax.

Tax Rates. Under the main method, the applicable tax rates for the 2008 tax year are as follows:

ND taxable income			Tax rate
First	$	2,200	2.10%
Next	$	2,950	3.92%
Next	$	2,700	4.34%
Next	$	2,850	5.04%
Over	$	10,700	5.54%

Under the optional method, the tax rates and corresponding taxable income brackets are the same as those under the optional method (Form ND-2) for individuals.

The requirement for an estate or trust to pay estimated North Dakota income tax also follows the same rules applicable to individuals. A beneficiary of an estate or trust may be required to file a North Dakota income tax return to report the income distributed or distributable to the beneficiary.

A fiduciary income tax return is due the 15th day of the 4th month following the end of the tax year.

Distribution of Revenue

All revenue from the individual income tax is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1977.
- The state's first income tax law was imposed in 1919.
- In 1923, it was revised and patterned after federal income tax law.
- Between 1923 and 1977, numerous changes were made to the law.

1977 Session.
- A tax credit for the installation of a solar or wind energy device was created.

1978 Initiated Measure.
- Voters in the 1978 General Election passed a measure decreasing individual income tax rates.

1979 Session.
- The beginning farmer program deductions, a deduction for gains from property subject to eminent domain, and a credit for contributions to nonprofit private high schools were created.
- The 1% business privilege tax was repealed for tax years after 1980.

1980 Initiated Measure.
- In the 1980 General Election, voters approved the oil extraction tax initiated measure that included an energy cost relief credit of up to $100.

1981 Session.
- The simplified optional short form system was created for individuals, on which the tax was determined by multiplying the federal income tax liability by a flat tax rate of 7½%.
- For long form filers, the beginning businessman program deductions, a deduction for interest from a North Dakota financial institution, and a tax credit for installing a geothermal energy device were created.

1983 Session.
- The energy cost relief credit was repealed.
- The tax rate on the simplified optional short form was increased to 10½%.
- The tax rates on the long form were increased, ranging from 2% on the first $3,000 of taxable income to 9% on taxable income over $50,000.

1985 Session.
- For long form filers, a tax credit for investing in a venture capital corporation and a deduction for an adopted child under the age of 21 were created.

1986 Special Session.
- General income tax withholding and estimated income tax laws were created.
- The simplified optional short form tax rate was increased to 14%.
- The tax rates on the long form were proportionally increased, ranging from 2.67% on the first $3,000 of taxable income to 12% on taxable income over $50,000.

1987 Referred Measure.
- State voters upheld the 1986 Special Session changes increasing the tax rates and creating the general withholding and estimated tax laws.

1987 Session.
- A 10% surtax on state income tax liability was created for tax year 1987 only.
- Beginning in 1988, the tax return had to include a line for an optional contribution to the nongame wildlife fund.
- For long form filers, tax credits were added for investment in the Myron G. Nelson Fund, Inc., and for wages paid to a developmentally disabled or chronically mentally ill employee.

1989 Session.
- On the long form, deductions were created for federal retirement benefits not previously eligible, for highway patrol retirement benefits, and for investment in a venture capital corporation or the Myron G. Nelson Fund, Inc.
- A credit was created on the long form for an investment in a nonprofit development corporation, and beginning in 1989, the tax return had to include a line for an optional contribution to the centennial tree program trust fund. Taxpayers must use the same filing status

and the same standard or itemized deductions used for federal purposes.
- North Dakota income tax law was perpetually federalized for tax years beginning after December 31, 1988.
- The short form tax rate increased to 17%.
- The long form tax rates were increased proportionately, ranging from 3.24% on the first $3,000 of taxable income to 14.57% on taxable income over $50,000.

1989 Referral Election.
- Tax rate increases passed by the 1989 Legislature were rejected in a December Special Election.

1991 Session.
- A deduction was created for distributions from mutual funds that hold U.S. government securities.
- Wages paid by farmers and ranchers were exempted from withholding requirements.
- The North Dakota Taxpayer Bill of Rights was created.
- The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-adding primary sector and tourism businesses.

1993 Session.
- Credits were added to the long form for “seed capital investment” in a new or expanding business, for long term care insurance premiums, and for alternative fuel equipment installed on motor vehicles.
- The New Jobs Training Program was created to allow new or expanding businesses to use income tax withheld from new employees to pay for the employees’ training.
- Also, a limited liability company form of business entity was legalized.

1994 Special Session.
- The project size limitations were removed as qualifications for the new or expanding business tax exemption.

1995 Session.
- A deduction was added to the long form for part of the gain on sale or exchange of stock of a corporation that relocates significant operations to North Dakota.
- The number of new jobs a business must create to qualify for the New Jobs Training Program was decreased.
- The Myron G. Nelson Fund, Inc. was changed to the Small Business Investment Company, a state established limited partnership.
- Authorized the taxation of a nonresident's income from gambling in North Dakota.

1997 Session.
- A tax credit for qualified care expenses to avoid the placement of a qualifying family member in a long-term care facility was created on the long form.
- An individual who files a claim for unemployment compensation benefits may elect to have federal and state income tax withheld from the benefits.

1999 Session.
- The interest rate on refunds was increased from 10% per year to 1% per month.

2001 Session.
- The simplified short form method (on which the tax was calculated as a percentage of the federal tax liability) was repealed. It was replaced with a method that uses federal taxable income as the starting point in calculating North Dakota taxable income, to which is applied a set of five tax rates—2.1%, 3.92%, 4.34%, 5.04%, and 5.54%. Each rate corresponds to one of five income brackets, each of which varies by filing status (that is, single, married filing jointly, head of household, etc).
- The estimated income tax requirements for individuals, estates, and trusts were changed to provide that no estimated tax has to be paid if the preceding tax year's net tax liability is less than $500.
- The threshold for filing an annual withholding return by an employer was increased to $500.
- A credit was created for investing in a North Dakota agricultural commodity processing facility.
- The partnership provisions were changed to exempt guaranteed payments of a nonresident partner of a professional service partnership for work performed outside North Dakota.
- Changes were made to the Renaissance Zone Act provisions, including the addition of rehabilitation work as a qualifying transaction.
- On the long form, the deduction for adopting a child under age 21 was increased to $1,750 with a 5-year carryforward of an unused amount.
- On the long form, the geothermal, solar, and wind energy device credit was allowed for a device installed on property leased by the taxpayer.

2003 Session.
- The seed capital investment tax credit rate was increased to 45%, and thresholds on eligible investments and credits were increased.
- A payroll service provider who electronically transmits an employer's withholding return and taxes for federal purposes must electronically transmit the state withholding returns and taxes.

- The legislature required the Tax Commissioner to conduct a tax amnesty program.
- The new or expanding business income exemption was allowed on Form ND-1. On Form ND-2, the dividend deduction was repealed.
- A deduction was created for compensation that a National Guard or Reserve member receives for federal active duty service.

2005 Session.
- The long-term capital gain exclusion on Form ND-1 was limited to a gain allocable to North Dakota.
- Lottery winnings are subjected to income tax withholding.
- The geothermal, solar, or wind energy device credit is changed to allow a five-year carryforward of an unused credit.
- A deduction of up to $10,000 of medical expenses and lost wages related to a human organ donation is created.
- A passthrough entity is required to withhold income tax from the distributive shares of income of its nonresident individual owners or beneficiaries.
- A credit for blending biodiesel fuel by a supplier is created.
- A credit for adding equipment necessary for the retail sale of biodiesel fuel is created.
- The seed capital and ag commodity investment tax credit provisions were changed to allow the credits to corporations and all passthrough entities and to revise various limitation provisions.
- A credit for planned gifts to qualified North Dakota nonprofit organizations was created.

2007 Session.
- New income tax credits were created for: (1) Investing in a North Dakota angel fund; (2) Employing college interns; (3) Employing extraordinary recruitment methods to fill hard-to-fill positions in North Dakota; (4) Increasing employment and/or purchasing additional tangible personal property in a North Dakota business; (5) Filing a joint return by certain married persons; and, (6) Owning an interest in a passthrough entity that invests in a North Dakota endowment fund.
- The existing research credit was changed to allow it to all taxpayer types, including individuals.
- The agricultural commodity processing facility and seed capital investment tax credit programs were changed to broaden and simplify their provisions.
- The energy device credit provisions were expanded to: (1) Include biomass as an energy source; (2) Allow the sale, assignment, or transfer of an unused credit under certain conditions; and, (3) Allow the transfer of the credit under a turnkey arrangement.
- The planned gift credit provisions were changed to increase the amount of the credit allowed.
- For the 2007 and 2008 income tax years only, two separate credits—one for residential and agricultural property and the second for commercial property—were created.
- The family member care credit provisions were changed to clarify and simplify them.
- New deductions were created for: (1) Contributing to a North Dakota College SAVE account; (2) Income of a Native American derived from reservations where not enrolled as a member; and, (3) Certain payments received for employment in a position eligible for the workforce recruitment credit.
- The beginning entrepreneur program deductions were repealed.

Individual Income Tax Collections

Fiscal Year	Net Collections
1998	177,904,251
1999	181,389,034
2000	198,287,830
2001	213,442,150
2002	198,922,525
2003	200,528,205
2004	214,145,899
2005	241,319,731
2006	274,621,741
2007	318,433,494
2008	308,889,352
2009 est.	307,767,000

SOURCE: North Dakota Office of State Tax Commissioner

Per Capita Comparison of Individual Income Tax Collections *

Fiscal Year 2007

State	Rank	Per Capita
Connecticut	1	$1,809
New York	2	$1,792
Massachusetts	3	1,767
Oregon	4	$1,493
California	5	$1,459
Minnesota	6	$1,391
New Jersey	7	$1,329
Virginia	8	$1,328
Hawaii	9	$1,216
Maryland	10	$1,189
Delaware	11	$1,185
North Carolina	12	$1,169
Wisconsin	13	$1,131
Maine	14	$1,031
Rhode Island	15	$1,026
Kansas	16	$989
Colorado	17	$986
Utah	18	$968
Oklahoma	19	$944
Idaho	20	$938
Vermont	21	$936
Nebraska	22	$930
Georgia	23	$922
Iowa	24	$892
Ohio	25	$875
Montana	26	$869
Missouri	27	$823
Pennsylvania	28	$789
Arkansas	29	$765
West Virginia	30	$751
Louisiana	31	$749
South Carolina	32	$735
Illinois	33	$732
Indiana	34	$727
Kentucky	35	$717
Alabama	36	$652
Michigan	37	$640
New Mexico	38	$584
Arizona	39	$504
NORTH DAKOTA	40	**$495**
Mississippi	41	$480
New Hampshire	42	$82
Tennessee	43	$36

* Seven states levy no individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Comparison of Individual Income Tax Features By State

Information for 2007 Tax Year[A]

State	Starting Point[E]	Standard Deduction[B]		Exemptions[C]		Federal Tax Deduction[F]	Filing Status[G]	Marginal Tax Rates[D]	
		Single	Joint	Personal	Dependent			Low	High (No. of brackets)
Alabama	State	$2,000 [H]	$4,00 [H]	$1,500	$500 [I]	Yes	State	2.00% [J]	5.00% over $3,000 [J] (3)
Alaska	-	- -	-	-	- -			No income tax	
Arizona	FAGI	4,373	8,745	- [K]	- [K]	No	State	2.59% [J]	4.54% over $150,000 [J,L] (5)
Arkansas	State	2,000[Q]	4,000	23 [M,N]	23 [M,N]	No	State	1.00%	7.00% over $30,999 [L,O,P] (6)
California	FAGI	3,516	7,032[Q]	94 [M,N]	294 [M,N]	No	SAF	1.00% [J]	9.30% over $44,814 [J,L,R] (6)
Colorado	FTI	SAF	SAF	SAF	SAF		No	SAF	4.63% of FTI
Connecticut	FAGI	0	0	12,750[S]	0	No	SAF	3.00% [J,T]	5.00% over $10,000 [J,T] (2)
Delaware	FAGI	3,250	6,500	110 [N]	110[N]	No	State	2.20%	5.95% over $60,000 (6)
Florida	-	-	-	-	-	-	-	No income tax	
Georgia	FAGI	2,300	3,000	2,700	2,700	No	SAF	1.00% [U]	6.00% over $7,000 [U] (6)
Hawaii	FAGI	2,000	4,000	1,040	1,040	No	State	1.40% [J]	8.25% over $48,000 [J,O] (9)
Idaho	FTI	SAF	SAF	SAF	SAF	No	SAF	1.60% [J]	7.80% over $24,736 [J,L,O] (8)
Illinois	FAGI	0	0	2,000	2,000	No	SAF	3.00% of FAGI	
Indiana	FAGI	0	0	1,000	2,500	No	SAF	3.40% of FAGI	
Iowa	FAGI	1,700 [Q]	4,200 [Q]	40 [N]	40 [N]	Yes	State	0.36%	8.98% over $60,435 [L] (9)
Kansas	FAGI	3,000	6,000	2,250	2,250	No	SAF	3.50%	6.45% over $30,000 [J] (3)
Kentucky	FAGI	2,050 [Q]	2,050 [Q]	20 [N]	20 [N]	No	State	2.00%	6.00% over $75,000 (6)
Louisiana	FAGI	0 [V]	0 [V]	4,500 [V]	1,000 [V]	Yes	SAF	2.00%	6.00% over $25,000 [J] (3)
Maine	FAGI	5,350 [Q]	8,900 [Q]	2,850	2,850	No	SAF	2.00% [U]	8.50% over $18,950 [L,U] (4)
Maryland	FAGI	2,000[W]	4,000 [W]	2,400	2,400	No	SAF	2.00%	4.75% over $3,000 (4)
Massachusetts	FAGI	0	0	4,125 [M]	1,000 [M]	No	State	5.30% of MA taxable income [X]	
Michigan	FAGI	0	0	3,400 [M]	3,400 [M]	No	State	4.35% of FAGI [Y]	
Minnesota	FTI	SAF	SAF	SAF	SAF	No	SAF	5.35% [U]	7.85% over $69,991 [L,U] (3)
Mississippi	State	2,300	4,600	6,000	1,500	No	State	3.00%	5.00% over $10,000 (3)
Missouri	FAGI	5,350[Q]	10,700 [Q]	2,100	1,200	Yes	SAF	1.50%	6.00% over $9,000 (10)
Montana	FAGI	3,810 [Q,Z]	7,620 [Q,Z]	2,040 [M]	2,040 [M]	Yes	State	1.00%	6.90% over $14,900 [L,O] (7)
Nebraska	FAGI	3,000[Q,AA]	6,000 [Q,AA]	111[M,N,BB]	111 [M,N,BB]	No	SAF	2.56%	6.84% over $27,000 (4)
Nevada	-	-	-	-	-	-	-	No income tax	
New Hampshire	State	0	0	2,400	0	No	State	5.00% of NH taxable income [CC]	
New Jersey	State	0	0	1,000	1,500	No	SAF	1.40%	8.97% over $500,000 (6)
New Mexico	FAGI	5,350 [Q]	10,700 [Q]	3,400 [M]	3,400 [M]	No	SAF	1.70% [U]	5.30% over $16,000 [U,O] (4)
New York	FAGI	7,500	15,000	0	1,000	No	SAF	4.00%	6.85% over $20,000 [J] (5)
North Carolina	FTI	3,000 [DD]	6,000[DD]	2,500 [DD]	2,500 [DD]	No	SAF	6.00%	8.00% over $120,000 [U] (4)
NORTH DAKOTA	FTI	SAF	SAF	SAF	SAF	No	SAF	2.10%	5.54% over $349,700 [L,O] (5)
Ohio	FAGI	0	0	1,450 [M,EE]	1,350 [M]	No	SAF	0.649%	6.555% over $200,000 (9)
Oklahoma	FAGI	2,750	5,500	1,000	1,000	No	SAF	0.50% [U]	5.65% over $10,500 [U,O] (9)
Oregon	FAGI	1,825	3,650	165 [N]	165 [N]	Yes	State	5.00% [J]	9.00% over $7,250 [J,L] (3)
Pennsylvania	State	0	0	0	0	No	State	3.07% of PA taxable income	
Rhode Island	FAGI	5,350 [Q]	8,900 [Q]	3,400 [M]	3,400 [M]	No	SAF	3.75%	9.90% over $349,700 [L,FF] (5)
South Carolina	FTI	SAF	SAF	SAF	SAF	No	SAF	0%	7.00% over $13,350 [L,GG,O] (6)
South Dakota	-	-	-	-	-	-	-	No income tax	
Tennessee	State	0	0	0	0	No	State	6.00% of TN taxable income [HH]	
Texas	-	-	-	-	-	-	-	No income tax	

State	Starting Point[E]	Standard Deduction[B] Single	Joint	Exemptions[C] Personal	Dependent	Federal Tax Deduction[F]	Filing Status[G]	Marginal Tax Rates[D] Low	High (No. of brackets)
Utah	FTI	SAF	SAF	2,550 [II]	2,550 [II]	Yes	SAF	2.30% [J]	6.98% over $4,313 [J,JJ] (6)
Vermont	FTI	SAF	SAF	SAF	SAF	No	SAF	3.60%	9.5% over $349,700 [L,O] (5)
Virginia	FAGI	3,000	6,000	900	900	No	State	2.00%	5.75% over $17,000 (4)
Washington	-	-	-	-	-	-	-	No income tax	
West Virginia	FAGI	0	0	2,000	2,000	No	State	3.00%	6.5% over $60,000 (5)
Wisconsin	FAGI	8,790 [Q,KK]	15,830 [Q,KK]	700	700	No	State	4.60% [U]	6.75% over $142,650 [L,O,U] (4)
Wyoming	-	-	-	-	-	-	-	No income tax	
District of Columbia	FAGI	2,500 [Q]	2,500 [Q]	1,500	1,500	No	State	4.00%	8.50% over $40,000 (3)

[A] Information in this table applies to the 2007 tax year. Also, the information in this table is only intended to provide a glimpse at some of the major features of the states' individual income tax systems. For complete details, exceptions to the general rules, and the most up-to-date information, contact the appropriate state tax agency or check their web site. To access state tax agency web sites, go to www.taxadmin.org/fla/link/.

[B] SAF ("same as federal") indicates the state's starting point automatically includes the federal standard deduction, as indexed for inflation.

[C] SAF ("same as federal") indicates the state's starting point automatically includes the federal exemption amount, as indexed for inflation.

[D] Only the low and high marginal tax rates are shown. The total number of different tax rate brackets is shown in parentheses following the high marginal rate. Unless indicated otherwise, the tax rates and income brackets are the same for single persons (except head of household) and married persons filing a joint return.

[E] The starting point indicates where the state begins the tax calculation. This amount may be adjusted up or down depending on each state's tax policy. The abbreviations mean the following: FAGI=federal adjusted gross income; FTI=federal taxable income; State=defined by state law.

[F] Indicates whether the federal income tax is allowed to be deducted in calculating the state's taxable income.

[G] SAF ("same as federal") indicates the federal filing status (that is, single, married filing jointly, head of household, or married filing separately) must be used for state purposes. "State" indicates that, in the case of married persons, either a joint or separate returns may be filed for state purposes regardless of the filing status used for federal tax purposes, which may be an important choice depending on the applicable tax rates.

[H] This amount increases for adjusted gross income below $30,000, up to a maximum of $2,500 for single filer or $7,500 for joint filers.

[I] This amount is for adjusted gross income over $100,000. It is $500 for adjusted gross income between $20,000 and $100,001, and is $1,000 for adjusted gross income under $20,001.

[J] The amount of income in each bracket is doubled for married persons filing a joint return.

[K] Personal exemption: $2,100 for single filer; $4,200 for joint filers with no dependent(s); and, $6,300 for joint filers with dependent(s).

[L] Tax brackets are indexed for inflation.

[M] Exemption amount is indexed for inflation.

[N] In lieu of a deduction from income, a tax credit is allowed, which reduces the tax dollar-for-dollar.

[O] Indicates that the state provides a break for capital gains in the form of an exclusion, lower tax rate, or tax credit that is generally available to all taxpayers.

[P] A special low-income tax rate credit is allowed within certain gross income ranges.

[Q] Standard deduction amount is indexed for inflation.

[R] On taxable income over $1 million, a 1% surcharge is added.

[S] This is a single exemption amount that applies to the return. It is reduced by $1,000 for each $1,000 of state adjusted gross income over $25,500. In the case of married persons filing jointly, the exemption amount that applies is $24,000, which must be reduced by $1,000 for each $1,000 of state adjusted gross income over $48.000.

[T] The calculated tax is reduced by a general tax credit ranging from 1%-75% of the tax for single filers with adjusted gross income below $55,500 and for married persons filing jointly with adjusted gross income below $100,500.

[U] Amount of income in each bracket differs for married persons filing jointly. Following is the high tax rate bracket in the case of married persons filing jointly: GA-6% over $10,000; ME-8.5% over $37,950; MN-7.85% over $123,751; NM-5.3% over $24,000; NC-8.00% over $200,000; OK-5.65% over $15,000; and WI-6.75% over $190,210.

[V] The standard deduction and exemption amounts are combined (the total of which is shown in the first column for exemptions). The $1,000 for a dependent is in addition to the personal exemption.

[W] The standard deduction is 15% of income with a minimum of $1,500 and a maximum of $2,000 for single filers; $3,000 and $4,000, respectively, for married persons filing jointly.

[X] A 12% tax rate applies to short-term capital gains, long-and short-term capital gains on collectibles, and pre-1996 installment sales classified as capital gain income for state purposes.

[Y] For 1/01/07 through 9/30/07, the rate was 3.90%, and for 10/01/07 through 12/31/07 the rate is 4.35%.

[Z] Single filer: Greater of $1,690 or 20% of adjusted gross income, up to a maximum of $3,810. Married persons filing jointly: Greater of $3,380 or 20% of adjusted gross income, up to a maximum of $7,620.

[AA] Smaller of federal standard deduction or amount shown in table. Begins to phase out when adjusted gross income reaches the same adjusted gross income amount for phaseout of federal itemized deductions.

[BB] The exemption credit begins to phase out at adjusted gross income over $73,000 for single filers and $122,000 for married persons filing jointly.

[CC] New Hampshire has a limited income tax that only applies to interest and dividend income.

[DD] The starting point is federal taxable income; however, the state does not recognize increases in the federal standard deduction or the federal exemption amount due to indexing. The difference between the federal amounts and the amounts allowed by the state (which are shown in the table) must be added back to federal taxable income in calculating the state's taxable income. The amounts in the table must be reduced by $500 for adjusted gross income over $60,000 for single filers and $100,000 for married persons filing jointly.

[EE] In addition to the exemption amount, a tax credit of $20 per exemption is allowed.

[FF] A taxpayer may elect to use an alternative method of calculating the tax: Multiply federal adjusted gross income, as modified by state adjustments, by a flat rate of 7.5%.

[GG] In the case of business income derived from a partnership or other passthrough entity, the taxpayer may elect to use a 6.0% tax rate in lieu of the high tax rate of 7%.

[HH] Tennessee has a limited income tax that only applies to interest and dividend income. The first $1,250 of income is exempted from tax.

[II] The starting point is federal taxable income; however, the state only recognizes 75% of the federal exemption amount (which is the amount shown in the table). Twenty-five percent of the federal exemption amount must be added back to federal taxable income in calculating the state's taxable income.

[JJ] For 2007, a taxpayer may elect to use a flat rate of 5.35%, subject to limited deductions and credits. Starting in 2008, the bracket system of rate is repealed, and only a flat rate of 5% will apply.

[KK] The standard deduction phases out for single filers with state income between $0-86,000, and for married persons filing jointly with state income between $0-$97,818.

INSURANCE PREMIUM TAX

CURRENT LAW

Imposition, Rates and Administration

Every insurance company licensed to do business in North Dakota is subject to a premium tax on the gross amount of its annual premiums, membership fees, and policy fees received from North Dakota policyholders. The premium tax rate is 2% for life insurance, and 1¾% for accident, health, property, casualty and surplus lines of insurance. A company domiciled in another state may be charged retaliatory tax--the tax rate of the home state--if the rate in the home state is higher than North Dakota's applicable premium tax rate.

A minimum $200 annual filing fee is required provided the total tax liability of an entity required to pay tax is less than $200.

The insurance premium tax is administered by the State Insurance Commissioner and is collected quarterly.

Exemptions and Credits

Gross receipts from annuities and from policies of benevolent and fraternal benefit companies are exempt. Credits against tax due are provided to insurers for the following situations:

- Assessment paid as a member of a comprehensive health association.
- Examination fees paid to the North Dakota Insurance Department.
- Ad valorem taxes on the premises occupied as the principal office in the state for over 50% of the year for which tax is paid.
- Investments in securities offered by a small business investment company created by the Myron G. Nelson Fund, Inc.
- Assessment paid to the Life and Health Insurance Guaranty Association.
- Insurers making or participating in incentive fund to make loans to low-risk businesses for primary sector business projects (N.D.C.C. ch. 26.1-50).

Distribution of Revenue

Collections are deposited in the State General Fund. The legislature may appropriate insurance premium tax revenue to the Insurance Tax Distribution Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

<u>1935 Session.</u>

- The first general sales tax in North Dakota was enacted at a rate of 2%. The tax base generally consisted of all sales to consumers of personal property; sales or service of gas, electricity, water and communication; and sales of tickets to places of amusement.

<u>Before 1983.</u>

- Out-of-state insurance companies were subject to a 2½% premium tax.
- North Dakota insurance companies were subject to corporation income tax, rather than insurance premium tax.

<u>1983 Session.</u>

- Insurance companies doing business in the state, whether incorporated in North Dakota or any other state, became subject to the insurance premium tax and exempt from the corporation income tax.
- The legislature provided for a 2% rate for life insurance, ½% for accident and health insurance, and 1% for property, casualty and other types of insurance.

<u>1987 Session.</u>

- The legislature increased the insurance premium tax rate from ½% to 1¼% for accident and health insurance and from 1% to 1¼% for property, casualty and other insurance.
- A credit was created for investments in the Myron G. Nelson Fund, Inc.1989 Session.
- The legislature increased the insurance premium tax rate from 1¼% to 1¾% for accident, health, property, casualty and other types of insurance.

1991 Session.

- The legislature adopted a $200 annual filing fee for all insurance companies.

1997 Session.

- A credit was created for any insurance company making or participating in a loan under the North Dakota Low-Risk Incentive Fund (see N.D.C.C. ch. 26.1-50-05.)

1999 Session.

- The method for calculating a penalty for failure to pay tax was changed.

Insurance Premium Tax Collections and Disbursements

Fiscal Year	Total Collections	General Fund	Insurance Distribution Fund
1998	19,957,574	17,357,574	2,600,000
1999	20,975,742	18,375,742	2,600,000
2000	21,893,086	19,293,086	2,600,000
2001	22,419,513	19,819,513	2,600,000
2002	25,999,204	23,347,204	2,652,000
2003	28,294,823	25,642,823	2,652,000
2004	30,928,373	28,276,373	2,652,000
2005	30,671,102	28,019,102	2,652,000
2006	29,124,817	25,864,809	3,260,005
2007	30,168,197	27,008,197	3,160,000

SOURCE: North Dakota Insurance Department

Insurance Premium Tax Collections Per Capita - Fiscal Year 2007

Rank	State	Per Capita Insurance Premium Taxes
1	Delaware	$127
2	Nevada	$101
3	Louisiana	$94
4	Vermont	$89
5	Alaska	$81
6	Hawaii	$77
7	South Dakota	$74
8	Arizona	$70
9	Maryland	$69
10	Connecticut	$67
11	New Hampshire	$66
12	Montana	$66
13	Mississippi	$66
14	Maine	$65
15	Massachusetts	$62
16	West Virginia	$61
17	Minnesota	$61
18	Tennessee	$61
19	New York	$61
20	Washington	$61
21	Alabama	$60
22	California	$60
23	Idaho	$57
24	Pennsylvania	$56
25	Oklahoma	$54
26	Texas	$54
27	North Carolina	$54
28	Rhode Island	$53
29	New Mexico	$53
30	New Jersey	$51
31	Missouri	$50
32	Virginia	$50
33	Arkansas	$49
34	**North Dakota**	**$47**
35	Kansas	$47
36	Utah	$47
37	Wyoming	$45
38	Florida	$43
39	Ohio	$39
40	Colorado	$37
41	Georgia	$36
42	Iowa	$35
43	Kentucky	$35
44	Indiana	$30
45	Wisconsin	$28
46	South Carolina	$28
47	Illinois	$24
48	Michigan	$22
49	Nebraska	$21
50	Oregon	$15
	US Average	$51

SOURCE: US Dept. of Commerce, Census Bureau Department.

LIQUOR AND BEER TAXES

CURRENT LAW

Imposition and Administration

The tax on liquor and beer is a privilege tax imposed on all alcoholic beverage wholesalers doing business in North Dakota. In addition, microbrew pubs and domestic wineries pay the taxes on alcoholic beverages made by those facilities and sold directly to consumers. The pub or wineries may not engage in any wholesaling activities. The State Tax Commissioner administers the tax and licenses wholesalers, microbrew pubs, and domestic wineries. The tax is collected on a monthly basis.

Exemptions

If the alcohol is used for non-beverage purposes, it is exempt from the tax. These exemptions include:

- Denatured alcohol
- Patent, proprietary, medical, pharmaceutical, antiseptic and toilet preparations
- Flavoring extracts
- Syrups and food products
- Scientific chemical and industrial products
- Wines delivered to priests, rabbis and ministers for sacramental use

Rates

The amount of the tax is determined by the type of beverage and the gallonage sold by a wholesaler. The tax rate schedule is as follows:

	Per Wine Gallon
Beer in bulk containers	$ .08
Beer in bottles and cans	$ .16
Wine (less than 17% alcohol)	$ .50
Wine (17% to 24% alcohol)	$ .60
Sparkling wine	$ 1.00
Distilled Spirits	$ 2.50
Alcohol	$ 4.05

Distribution of Revenue

Revenue from the liquor and beer tax is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1967 Session.
- The alcoholic beverage tax law was rewritten and the tax rates were restructured.

1991 Session.
- Microbrew pubs became subject to the liquor and beer tax.

1995 Session.
- Bonding repealed.

1995 Session.
- Microbrew pubs became subject to new licensing requirements.

1999 Session.
- Establish penalties for the shipping of out-of-state sales of alcoholic beverages from an out-of-state location directly to a person in North Dakota who is not a wholesaler.

2001 Session.
- The wholesale alcoholic beverage administration was transferred from the state treasurer to the state tax commissioner effective July 1, 2001.
- Effective August 1, 2001, direct shippers of alcoholic beverages and farm wineries are required to obtain annual licenses and pay the wholesaler and applicable retailer taxes to the state tax commissioner.

2003 Session.
- The alcoholic beverages law was amended to replace "farm winery" with "domestic winery."

2005 Session.
- Suppliers became subject to new licensing requirements.
- Brand registration requirements were repealed.
- Thresholds for point-of-sale and dispensing equipment provided by wholesalers to retailers were increased.
- The percentage volume of North Dakota produced ingredients that must be included in wine produced by a domestic winery was defined.

2007 Session:

- Container capacity was defined for "bottle or can" and bulk sales.
- The reciprocity with other states with regard to wine sales was repealed.
- Direct shipments to consumers inside or outside of the state are allowed by domestic wineries.
- Domestic winery reporting requirements were defined. The revocation of a suppliers license is provided for failure to comply with reporting requirements.

Liquor and Beer Taxes Collections

Fiscal Year	Total Collections
1998	5,269,318
1999	5,267,588
2000	5,420,486
2001	5,455,921
2002	5,493,783
2003	5,662,052
2004	5,910,349
2005	5,979,513
2006	6,340,589
2007	6,478,280
2008	6,959,464
2009 est.	6,819,000

SOURCE: Office of State Tax Commissioner.

Comparison of State Tax Rates - Beer

January 1, 2008

State	State Rate on Beer ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$0.53	Yes	$0.52/gallon local tax
Alaska	1.07	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2% - $0.16/gallon; $0.008/gallon and 3% off- and 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	$2.67¢/12 ounces on-premise retail tax
Georgia	0.32	Yes	$0.53/gallon local tax
Hawaii	0.93	Yes	$0.54/gallon draft beer
Idaho	0.15	Yes	over 4% - $0.45/gallon
Illinois	0.185	Yes	$0.16/gallon in Chicago and $0.06/gallon in Cook County
Indiana	0.115	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax
Kentucky	0.08	Yes *	11% wholesale tax
Louisiana	0.32	Yes	$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes *	0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	--	under 3.2% - $0.077/gallon. 9% sales tax
Mississippi	0.4268	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.31	Yes	
Nevada	0.16	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York	0.11	Yes	$0.12/gallon in New York City
North Carolina	0.53	Yes	
NORTH DAKOTA	0.16	--	7% state sales tax, bulk beer $0.08/gallon
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2% - $0.36/gallon; and 13.5% on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.10	Yes	$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.14	Yes	17% wholesale tax
Texas	0.19	Yes	over 4% - $0.198/gallon, 14% on-premise and $0.05/drink on airline sales
Utah	0.41	Yes	over 3.2% - sold through state store
Vermont	0.265	Yes	6% to 8% alcohol - $0.55; 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.261	Yes	
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
District of Columbia	0.09	Yes	8% off- and 10% on-premise sales tax
U.S. (median)	$0.188		

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, April 2008.

Comparison of State Tax Rates - Wine

January 1, 2008

State	State Rate on Wine ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$1.70	Yes	Over 14% - sold through state store
Alaska	2.50	n.a	
Arizona	0.84	Yes	
Arkansas	0.75	Yes	under 5% - $0.25/gallon; $0.05/case; and 3% off- and 10% on-premise
California	0.20	Yes	sparkling wine - $0.30/gallon
Colorado	0.32	Yes	
Connecticut	0.60	Yes	over 21% and sparkling wine - $1.50/gallon
Delaware	0.97	n.a.	
Florida	2.25	Yes	over 17.259% - $3.00/gallon, sparkling wine $3.50/gallon $6.67¢/4 ounces on-premise retail tax
Georgia	1.51	Yes	over 14% - $2.54/gallon; $0.83/gallon local tax
Hawaii	1.38	Yes	Sparkling wine - $2.12/gallon and wine coolers - $0.85/gallon
Idaho	0.45	Yes	
Illinois	0.73	Yes	over 20% - $4.50/gallon; $0.246/gallon in Chicago and ($0.16-$0.30)/gallon in Cook County
Indiana	0.47	Yes	over 21% - $2.68/gallon
Iowa	1.75	Yes	under 5% - $0.19/gallon
Kansas	0.30	No	over 14% - $0.75/gallon; 8% off- and 10% on-premise
Kentucky	0.50	Yes *	11% wholesale
Louisiana	0.11	Yes	14% to 24% - $0.23/gallon, over 24% and sparkling wine - $1.59/gallon
Maine	0.60	Yes	over 15.5%-sold through state stores, sparkling wine - $1.25/gallon additional 5% on-premise sales tax
Maryland	0.40	Yes	
Massachusetts	0.55	Yes *	sparkling wine - $0.70/gallon
Michigan	0.51	Yes	over 16% - $0.76/gallon
Minnesota	0.30	--	14% to 21% - $0.95/gallon, under 24% and sparkling wine - $1.82/gallon; over 24% - $3.52/gallon; $0.01/bottle (except miniatures) and 9% sales tax
Mississippi	0.35	Yes	over 14% and sparkling wine - sold through the state
Missouri	0.30	Yes	
Montana	1.06	n.a.	over 16% - sold through state stores; 7% surtax
Nebraska	0.95	Yes	
Nevada	0.70	Yes	14% to 22% - $1.30/gallon, over 22% - $3.60/gallon
New Hampshire	see footnote (1)	n.a.	
New Jersey	0.70	Yes	
New Mexico	1.70	Yes	over 14% - $5.68/gallon
New York	0.19	Yes	
North Carolina	0.79	Yes	over 17% - $0.91/gallon
NORTH DAKOTA	0.50	--	over 17% - $0.60/gallon, sparkling wine - $1.00/gallon; 7% state sales tax
Ohio	0.30	Yes	over 14% - $0.98/gallon, vermouth - $1.08/gallon and sparkling wine - $1.48/gallon
Oklahoma	0.72	Yes	over 14% - $1.40/gallon, sparkling wine - $2.08/gallon; 13.5% on-premise
Oregon	0.67	n.a.	over 14% - $0.77/gallon
Pennsylvania	see footnote (1)	Yes	
Rhode Island	0.60	Yes	sparkling wine - $0.75/gallon
South Carolina	0.90	Yes	$0.18/gallon additional tax
South Dakota	0.93	Yes	14% to 20% - $1.45/gallon; over 21% and sparkling wine - $2.07/gallon; 2% wholesale tax
Tennessee	1.21	Yes	$0.15/case and 15% on-premise
Texas	0.20	Yes	over 14% - $0.408/gallon and sparkling wine - $0.516/gallon 14% on-premise and $0.05/drink on airline sales
Utah	see footnote (1)	(1) Yes	
Vermont	0.55	Yes	over 16% - sold through state store, 10% on-premise sales tax
Virginia	1.51	Yes	under 4% - $0.2565/gallon and over 14% - sold through state store
Washington	0.87	Yes	over 14% - $1.72/gallon;
West Virginia	1.00	Yes	5% local tax
Wisconsin	0.25	Yes	over 14% - $0.45/gallon
Wyoming	see footnote (1)	(1) Yes	
District of Columbia	0.30	Yes	8% off- and 10% on-premise sales tax, over 14% - $0.40/gallon and sparkling - $0.45/gallon
U.S. (median)	0.69		

(1) All wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, March 2008.

Comparison of State Tax Rates - Distilled Spirits

January 1, 2008

State	State Rate on Spirits ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	see footnote (1)	Yes	
Alaska	$12.80	n.a.	under 21% - $2.50/gallon
Arizona	3.00	Yes	
Arkansas	2.50	Yes	under 5% - $0.50/gallon, under 21% - $1.00/gallon; $0.20/case and 3% off-14% on-premise retail taxes
California	3.30	Yes	over 50% - $6.60/gallon
Colorado	2.28	Yes	
Connecticut	4.50	Yes	under 7% - $2.05/gallon
Delaware	5.46	n.a.	under 25% - $3.64/gallon
Florida	6.50	Yes	under 17.259% - $2.25/gallon, over 55.780% - $9.53/gallon $6.67¢/ounce on-premise retail tax
Georgia	3.79	Yes	$0.83/gallon local tax
Hawaii	5.98	Yes	
Idaho	see footnote (1)	Yes	
Illinois	4.50	Yes	under 20% - $0.73/gallon; $1.845/gallon in Chicago and $2.00/gallon in Cook County
Indiana	2.68	Yes	under 15% - $0.47/gallon
Iowa	see footnote (1)	Yes	
Kansas	2.50	No	8% off- and 10% on-premise retail tax
Kentucky	1.92	Yes *	under 6% - $0.25/gallon; $0.05/case and 11% wholesale tax
Louisiana	2.50	Yes	under 6% - $0.32/gallon
Maine	see footnote (1)	Yes	
Maryland	1.50	Yes	
Massachusetts	4.05	Yes *	under 15% - $1.10/gallon; over 50% alcohol - $4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote 1)	Yes	
Minnesota	5.03	--	$0.01/bottle (except miniatures) and 9% sales tax
Mississippi	see footnote (1)	Yes	
Missouri	2.00	Yes	
Montana	see footnote (1)	n.a.	
Nebraska	3.75	Yes	
Nevada	3.60	Yes	under 14% - $0.70/gallon and under 21% - $1.30/gallon
New Hampshire	see footnote (1)	n.a.	
New Jersey	4.40	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	under 24% - $2.54/gallon; $1.00/gallon in New York City
North Carolina	see footnote (1)	Yes *	
NORTH DAKOTA	2.50	--	7% state sales tax
Ohio	see footnote (1)	Yes	
Oklahoma	5.56	Yes	13.5% on-premise
Oregon	see footnote (1)	n.a.	
Pennsylvania	see footnote (1)	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	$5.36/case and 9% surtax
South Dakota	3.93	Yes	under 14% - $0.93/gallon, 2% wholesale tax
Tennessee	4.40	Yes	$0.15/case and 15% on-premise; under 7% - $1.21/gallon
Texas	2.40	Yes	14% on-premise and $0.05/drink on airline sales
Utah	see footnote (1)	Yes	
Vermont	see footnote (1)	No	10% on-premise sales tax
Virginia	see footnote (1)	Yes	
Washington	see footnote (1)	Yes *	
West Virginia	see footnote (1)	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote (1)	Yes	
District of Columbia	1.50	Yes	8% off- and 10% on-premise sales tax
U.S. (median)	$3.75		

(1) In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor profits.

* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, March 2008.

NORTH DAKOTA LOTTERY

CURRENT LAW

On November 5, 2002, North Dakota citizens approved a constitutional amendment that enabled the state to participate in multi-state lottery games. The 2003 Legislative Assembly passed House Bill No. 1243 that became law on April 4, 2003. This law, Chapter 53-12.1 of the North Dakota Century Code, created the North Dakota Lottery as a division within the Office of Attorney General. The law restricts the Lottery to multi-state online games. The administrative rules, Chapter 10-16 of the North Dakota Administrative Code, address general rules, retailer, conduct and play, and game rules.

Scope of Operation

The North Dakota Lottery is responsible for administering, regulating, enforcing, and promoting the state's lottery.

The Lottery selects and licenses retailers; trains employees of retailers to use lottery terminals and sell and redeem tickets; develops administrative rules and proposes laws; investigates allegations of unlawful activity; assists retailers in promoting lottery games; pays high-tier prizes to players; ensures that retailers and players comply with the lottery law and rules; and provides full accountability to the public and Legislature.

Lottery Advisory Commission

The Attorney General and Chairman of the Legislative Council appointed a five-member Lottery Advisory Commission. The Commission serves as a policy advisory to the Attorney General and director of the Lottery and serves as the Audit Committee of the Lottery. The Commission oversees the general operation of the Lottery and is consulted on all substantive Lottery policies, plans, issues, contracts, timelines, and activities. The Commission meets at least on a quarterly basis.

Product Mix

The North Dakota Lottery conducts the games of Powerball®, Hot Lotto®, Wild Card 2®, and 2by2®. Powerball was launched on March 25, 2004, Hot Lotto on June 24, 2004, Wild Card 2 on September 23, 2004, and 2by2 on February 2, 2006. These games have a range of minimum jackpots of $22,000 to $15 million, and a range of odds of winning on a $1 play of 1:3.59 to 1:36.6.

The Lottery launched a Give-A-Gift Certificate service on December 1, 2004, to provide players an opportunity to purchase lottery gift certificates in values of $1, $5, $10, and $20 to give as gifts to family members and friends for special occasions. The certificates are printed on lottery terminals, have no expiration date, and may be redeemed for lottery tickets at any Lottery retailer.

The Lottery launched a Subscription service on November 1, 2005, to provide players an opportunity to prepay and be automatically entered into draws for 13, 26, or 52 weeks. Subscriptions are available for all the games and can be applied for directly online through the Internet. Subscriptions are a convenience for players who cannot always get to a Lottery retailer before every drawing or who travel to another state on vacation during winter months or as gifts.

Retailers

As of June 30, 2008, the Lottery had 398 licensed lottery retailers located in 126 towns and cities throughout 52 counties.

A volunteer informal 12-member Retailer Advisory Board serves as a front line retailer/player advisor to the Lottery. The Board provides the Lottery with retailers' perspectives on various items, including policy, point-of-sale items, Lottery web site, proposed rules and games, and marketing promotions. The Board meets periodically.

Debt Setoff

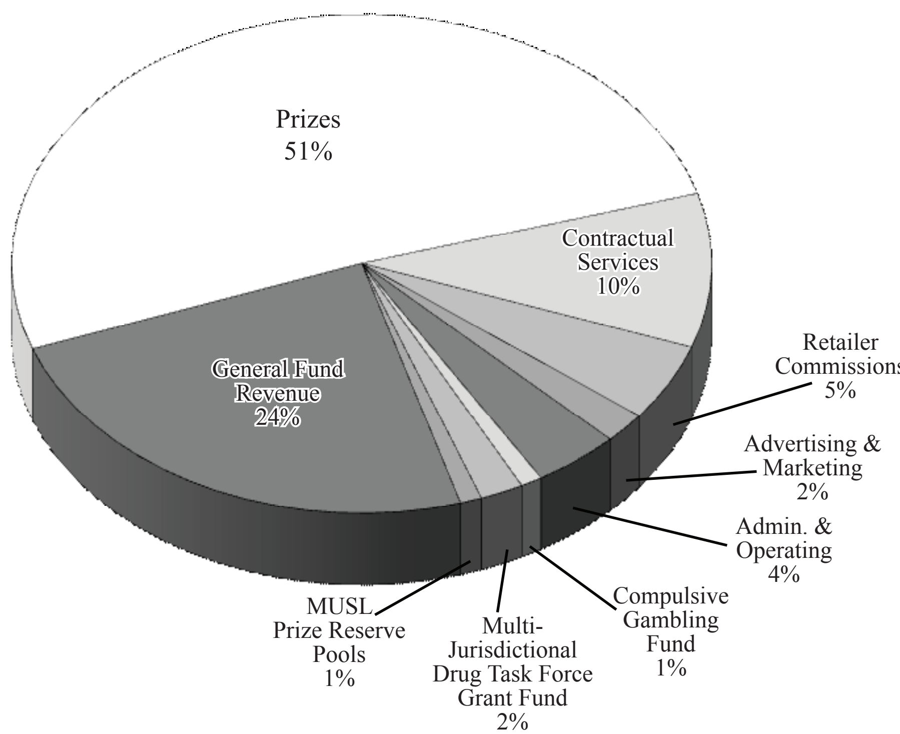
The Lottery has established a debt setoff program in which a lottery prize of $600 or more is used to setoff a delinquent debt owed to any state agency or collected through a state agency on behalf of a third party.

Financial Data

	FY 2004 (3 months activity)	FY 2005	FY 2006	FY 2007	FY 2008
Ticket Sales	$ 5,768,602	$ 19,127,290	$ 22,328,.353	$ 22,641,454	$ 22,123,185
Total Prizes	$ 2,790,398	$ 9,085,551	$ 11,044,222	$ 11,289,566	$ 11,364,206
Retailer Commissions	$ 288,430	$ 956,365	$ 1,116,458	$ 1,124,773	$ 1,089.323
Retailer Bonuses	N/A	N/A	$ 41,250	$ 40,000	$ 55,500

Transfers	2003-05 Biennium	2005-07 Biennium
Compulsive Gambling Fund	$ 400,000	$ 400,000
State General Fund	$ 7,269,005	$ 11,155,000 (est.)

Percent Allocation of Lottery Ticket Sales



SOURCE: North Dakota Lottery

OIL AND GAS TAXES

CURRENT LAW

Oil And Gas Gross Production Tax

Imposition and Rates

The oil and gas gross production tax is imposed in lieu of property taxes on oil and gas producing properties.

Oil. A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation. Both the producer and purchaser of the oil are required to submit reports to the Tax Commissioner on a monthly basis. The reports show the volume and taxable value of sales of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax on oil bought during a production month. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers are required to file monthly reports electronically.

Gas. The gross production tax on gas is an annually adjusted flat rate per thousand cubic feet (mcf) of all nonexempt gas produced in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 2009 are as follows:

Time Period	Tax Rate
July 1, 2002 - June 30, 2003	$.0824
July 1, 2003 - June 30, 2004	$.0615
July 1, 2004 - June 30, 2005	$.1037
July 1, 2005 - June 30, 2006	$.1215
July 1, 2006 - June 30, 2007	$.1640
July 1, 2007 - June 30, 2008	$.1428
July 1, 2008 - June 30, 2009	$.1476

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.

Shallow gas produced during the first 24 months of production from and after the first date of sales from a shallow gas zone, is exempt from gross production tax.

Monthly reports to the Tax Commissioner are required from both the producer and the purchaser/processor of the gas. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers/processors are required to file monthly reports electronically.

Distribution of Revenue

Revenue from the gross production tax is distributed under the following formula:

- One-fifth is deposited with the State Treasurer. Of this portion, 33 1/3% is allocated to the Oil and Gas Impact Grant Fund, up to a maximum of $6 million per biennium. The remainder of this portion is credited to the State General Fund.
- Four-fifths is allocated between the State General Fund and the producing county according to the following formula:

Revenue	County	State
Up to $1 million	100%	0%
$1 to $2 million	75%	25%
$2 to $3 million	50%	50%
Over $3 million	25%	75%

However, the amount any one county can receive per fiscal year is limited according to population as follows:

Population	Maximum Distribution
Up to 3,000	$ 3.9 million
3,000 to 6,000	4.1 million
6,000 or more	4.6 million

Tax revenue distributed to a county is further split with 45% earmarked for the county general fund, 35% for the school districts within the county, and 20% to incorporated cities within the county.

A county may receive an additional $1 million for each fiscal year if during that fiscal year the county levies a total of at least 10 mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

Oil Extraction Tax

Imposition and Rates

The oil extraction tax is levied on the extraction of oil from the earth. The tax rate is 6½% of the gross value at the well of crude oil. However, the rate is reduced to 4% for oil produced from the following:

- A vertical or horizontal new well, after the appropriate exemption expires.
- A workover well after the exemption expires.
- Incremental oil from a qualifying secondary or tertiary recovery project, after the 5-year or 10-year exemption expires.
- Nonincremental oil from a qualifying secondary recovery project that has reached an average production level of at least 25% over normal operations for six consecutive months.
- Nonincremental oil from a qualifying tertiary recovery project that has reached a production level of at least 15% over normal operations for one month and continues to be operated as a qualifying project.

A qualifying *secondary recovery project* is a unit that uses water flooding and is certified by the North Dakota Industrial Commission. A qualifying *tertiary recovery project* is a unit that uses an enhanced recovery method which conforms with federal tax code provisions and is certified by the North Dakota Industrial Commission.

The rate is reduced to 2% for the first 75 thousand barrels of oil produced during the first 18 months after completion from a well drilled and completed in the Bakken formation after June 30, 2007, and before July 1, 2008.

The oil extraction tax is paid monthly with the gross production tax on a combined reporting form.

Exemptions

To receive the full benefit of an exemption or the 4% reduced rate, a producer must file the Industrial Commission's certification of well status with the Tax Commissioner within 18 months of the first day of eligibility. If the producer does not file within the 18-month period, then the exemption or reduced rate begins the first day of the month in which the certification is received by the Tax Commissioner.

The exemptions to the oil extraction tax are as follows:

- Royalty interest in oil extracted from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.
- Oil extracted from a certified stripper well property. A stripper well property is property whose average daily production during a 12-month period did not exceed 10 barrels per day for a well of a depth of 6,000 feet or less, 15 barrels per day for a well of a depth of more than 6,000 feet but not more than 10,000 feet, and 30 barrels per day for a well of a depth of more than 10,000 feet.
- Oil produced during the first 15 months of production from a vertical new well. This exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 24 months of production from a horizontal new well. The exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 60 months of production from either a vertical new well or a horizontal new well drilled and completed on tribal trust land.
- Oil produced from a horizontal reentry well for a period of 9 months beginning on the date the well is recompleted as a horizontal well. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a two-year inactive well for a period of ten years beginning the first day of the month in which the Industrial Commission's certification is received by the Tax Commissioner. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a qualifying well that has been worked over. The exemption is for a 12-month period starting with the first day of the third month after completion of the workover project. A qualifying well is a well that has produced less than 50 barrels per day during the last six months of continuous production before workover. The well operator must notify the Industrial Commission before beginning the project. Project cost must exceed $65,000 or production must increase 50% or more in the first two months after project completion. The exemption is subject to the "trigger" provisions described below.
- Oil produced from a two-year inactive well for a period of ten years after being recompleted or returned to production. The exemption is subject to the "trigger provisions" described below.

- Incremental oil from a qualifying secondary or tertiary recovery project. The exemption is 5 years for secondary recovery projects and 10 years for tertiary recovery projects from the date the incremental production begins.

"Trigger" Provisions

The reduced rate provisions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, workover wells, and enhanced recovery wells are ineffective if the average price of a barrel of crude oil exceeds the trigger price (thirty-five dollars and fifty cents, as indexed for inflation) for each month in any consecutive five-month period. Except for incremental oil produced from enhanced recovery wells, exemptions for the above wells also become ineffective if the average price of a barrel of crude exceeds the trigger price for the same consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period.

The Tax Commissioner has determined that the tax incentives subject to the trigger price became ineffective for production periods beginning October 1, 2004, and until such time as the statutory provisions for reinstatement are met.

The trigger price effective for calendar years through December 31, 2008 are as follows:

Time Period	Trigger Price
Jan. 1, 2004 - Dec. 31, 2004	$35.11
Jan. 1, 2005 - Dec. 31, 2005	$36.48
Jan. 1, 2006 - Dec. 31, 2006	$39.36
Jan. 1, 2007 - Dec. 31, 2007	$42.89
Jan. 1, 2008 - Dec. 31, 2008	$43.92

Distribution of Revenue

Revenue from the oil extraction tax is distributed as follows:
- 60% to the State General Fund.
- 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund.
- 20% to the Southwest Water Pipeline Sinking Fund and to a Resources Trust Fund. Principal and income from the Resources Trust Fund may be expended only pursuant to legislative appropriation and are available for water and certain energy related projects.

HISTORICAL OVERVIEW

<u>Oil And Gas Gross Production Tax</u>

Significant Changes In Law

<u>1953 Session.</u>
- The gross production tax was imposed at a rate of 4¼% of gross value at the well.

<u>1957 Session.</u>
- The rate was increased from 4¼% to 5% and the revenue distribution formula was adjusted.

<u>1981 Session.</u>
- The revenue distribution formula was amended.

<u>1983 Session.</u>
- Monthly rather than quarterly remittance was required, and the maximum distributions to the counties was increased.

<u>1985 Session.</u>
- Oil reclaimed from tank bottoms and pit oil material has value for tax purposes only if a cash price is paid by the oil reclaimer.

<u>1989 Session.</u>
- The law was changed to specifically state the gross production tax is a real property tax.
- The revenue distribution formula was amended, effective July 1, 1991 to allocate 33 1/3 % of the first one-fifth portion to the Oil and Gas Impact Grant Fund.

<u>1991 Session.</u>
- The tax on gas was changed from 5% of gross value to an annually adjusted flat rate per mcf. Procedures were provided for determining gross value at the well of oil under arm's length and non-arm's length contracts.
- The legislature approved the Taxpayer Bill of Rights.

<u>1993 Session.</u>
- The interest accrual period was changed on tax refunds for periods after June 30, 1993. Interest begins to accrue 60 days after the due date of the return, after the return was filed, or after the tax was fully paid, whichever occurs later.
- Tax from undetermined sources will be allocated between the State General Fund and the county that received the least amount of revenue during the fiscal year.

1997 Session.

- The periods for assessment or refund run from the due date of the original return or the date the original return was filed whichever is later. The Tax Commissioner has two years after an amended return is filed to audit that return and assess any additional tax that is due.
- The Tax Commissioner has authority to require purchasers to file monthly reports by electronic data interchange or other form of electronic media and can waive the producer's requirement to file a monthly return.
- Legislation passed that authorized the use of alternative methods for signing, subscribing, or verifying a return filed by electronic means, including telecommunications.
- A permanent oil tax trust fund was established for the deposit of oil extraction and gross production tax revenues, which exceed specific amounts in a biennium.

1999 Session.

- The legislature changed the manner in which unallocated oil and gas gross production taxes collected from unidentified sources is distributed. Previously, the unallocated taxes were distributed to the county with the lowest total gross production tax distribution for the fiscal year. After June 30, 1999, the unallocated taxes are distributed to each county in the same proportion as total gross production tax allocations for the fiscal year.

Oil Extraction Tax

Significant Changes in Law

1980 Initiated Measure.

- Voters in the 1980 General Election passed an initiated measure creating the 6½% oil extraction tax.
- The revenue distribution formula was: 45% to the State General Fund, 45% to schools, and 10% to the trust fund.
- The measure also included an individual income tax energy cost relief credit.

1981 Session.

- The legislature amended the distribution formula.

1983 Session.

- The distribution formula was changed.
- Filing requirements were changed from a quarterly to a monthly basis.

1987 Session.

- An exemption for the first 15 months of production from a new well (drilled and completed after April 27, 1987) was provided.
- The rate was reduced from 6½% to 4% for a new well after the 15-month exemption and for production from a qualifying secondary or tertiary recovery project well. These incentives would be eliminated if the average crude oil price is $33 or more per barrel.
- The legislature repealed the exemption for private royalty interest and expanded the stripper well definition to allow more marginal wells to qualify for an exemption.

1989 Session.

- A 12-month exemption was provided for production from a qualifying well after completion of a workover project. This incentive is subject to the “trigger.”

1991 Session.

- An exemption was created for incremental oil from a qualifying secondary or tertiary recovery project.
- A June 30, 1995 sunset was placed on certification of secondary projects. After the expiration of the exempt period, the incremental oil would be eligible for the 4% reduced rate. The reduced rate incentive is subject to the “trigger.”
- The “trigger” was amended to reinstate the reduced rates and exemptions if the average crude oil price falls below $33 per barrel.

1993 Session.

- The workover exemption was amended to eliminate the $30,000 minimum project cost requirement and a 4% reduced rate was adopted for oil produced from wells that receive the workover exemption after June 30, 1993.

1995 Session.

- The stripper well definition was broadened from 20 to 30 barrels per day for wells over 10,000 feet deep.
- The exemption for a horizontal new well was increased from 15 to 24 months and a 9-month exemption was created for a horizontal reentry well.
- A 10-year exemption was created for oil from a two-year inactive well. To get the full benefit of an exemption or the 4% reduced rate, producers were given an 18-month period to file the Industrial Commission’s certification of well status with the Tax Commissioner.
- For secondary recovery projects, the sunset for certification was removed.
- The revenue distribution formula was changed.

1997 Session.

- A 60-month exemption was created for production from a well drilled and completed on an Indian reservation or on tribal trust land after July 31, 1997.
- Previous legislation was amended to keep the current distribution factors at the current percentages.

2001 Session.

- The "trigger" provision for exemptions and rate reductions was amended to clarify when the trigger was to be become effective. All rate reductions and exemptions subject to the trigger provision become ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period. Average price is defined as the monthly average of the daily closing price for a barrel of west Texas intermediate Cushing crude oil minus two dollars and fifty cents. Trigger price is defined as thirty-five dollars and fifty cents, as indexed for inflation.

2003 Session.

- An oil and gas research council was created and an oil and gas research fund was established with a continuing appropriation provided.
- A temporary exemption from gross production tax was provided for gas produced from shallow gas wells with an expiration date of June 30, 2007.
- The two-year inactive well exemption was amended to clarify the definition of a two-year inactive well and to provide an 18 month provision to qualify the well for an exemption to be consistent with other oil extraction tax exemptions.
- The work-over well exemption was amended to remove the requirement that a notice of intention must be filed before a work-over project is commenced to qualify for an exemption.

2005 Session.

- The legislature provided for a sales and use tax exemption for carbon dioxide used for the enhanced recovery of oil or natural gas.

2007 Session.

- The legislature provided for an oil extraction tax rate reduction to 2% for the first 75 thousand barrels of oil produced during the first 18 months after completion from a well drilled and completed in the Bakken formation after June 30, 2007, and before July 1, 2008
- The expiration date for the gross production tax exemption for shallow gas wells was eliminated.
- The distribution formulas for the county share of gross production tax was increased to 100% of the first million, 75% of the second million, 50% of the third million, and 25% for amounts over $3 million. A county may receive $1 million in addition to the amount of the cap if during the fiscal year the county levies a total of at least 10 mills for road and bridge purposes.
- The Governor, in consultation with the Tax Commissioner, is authorized to enter into agreements with the Three Affiliated Tribes relating to taxation and regulation of oil and gas exploration and production within the boundaries of the Fort Berthold Reservation.

Oil and Gas Taxes Distribution Formula Changes

Gross Production Tax

		State		Counties					Maximum County		
									County Population		
	Increments	General Fund	Oil & Gas Impact Grant Fund	Total County %	Cities	School Districts	Road and Bridge Fund	General Fund	Under 3,000	3,000 to 6,000	Over 6,000
1957 Session	First 1/5:	100%									
	Remaining 4/5:										
	1st $200,000	25%		75%							
	2nd $200,000	50%		50%	15%	45%	40%				
	3rd $400,000	75%		25%							
1981 Session	First 1/5:	100% (1)									
	Remaining 4/5:									FY-1982	
	1st $ Million	25%		75%					$3.2 M	$3.5 M	$4.0 M
	2nd $ Million	50%		50%	20%	35%		45%		FY-1983	
	Over $2 Million	75%		25%					$3.8 M	$4.0 M	$4.5 M
1983 Session									$3.9 M	$4.1 M	$4.6 M
1989 Session	First 1/5:	66 2/3% (3)	33 1/3% (2)								
2007 Session	First 1/5:	66 2/3%	33 1/3%								
	Remaining 4/5:									FY-1982	
	1st $ Million	0%		100%	20%	35%		45%	$3.9 M	$4.1 M	$4.6 M (4)
	2nd $ Million	25%		75%							
	3rd $ Million	50%		50%							
	Over $3 Million	75%		25%							

(1) For the 1981-83 biennium only, the legislature provided that up to $32 million of the 1/5 State General Fund share be distributed to the Highway Tax Distribution Fund and to township road and bridge funds.

(2) Up to a maximum of $6 million per biennium. The remainder is deposited in the State General Fund.

(3) Total oil collections to the State general fund are capped at $71 million per biennium. All revenue in excess of $71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

(4) A county may receive $1 million in addition to the amount of the cap if during the fiscal year the county levies a total of at least 10 mills for road and bridge purposes.

Oil Extraction Tax

	State General Fund	Education Funds	Water Pipeline & Trust Fund
1980 Measure #6	45%	45%	10%
1981 Session	30%	60%	10%
1983 Session	90%	10%	
1995 Session:			
FY 1996 and 1997	60%	20%	20%
After FY 1997	70%	20%	10%
1997 Session:			
After FY 1997	60% (1)	20%	20%

(1) Total oil collections to the State general fund are capped at $71 million per biennium. All revenue in excess of $71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

Oil and Gas Gross Production Tax Revenue

Fiscal Year	Total Net Collections	State General Fund
1998	29,521,309	15,744,740
1999	22,705,995	11,228,673
2000	38,041,008	21,062,999
2001	46,029,027	17,370,366
2002	36,515,072	20,530,727
2003	43,477,533	24,985,793
2004	47,519,075	28,256,440
2005	74,046,219	49,629,401
* 2006	104,378,689	45,774,119
* 2007	118,782,343	-0-
* 2008	209,457,069	39,309,315
* 2009 est.	259,046,000	-0-

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections

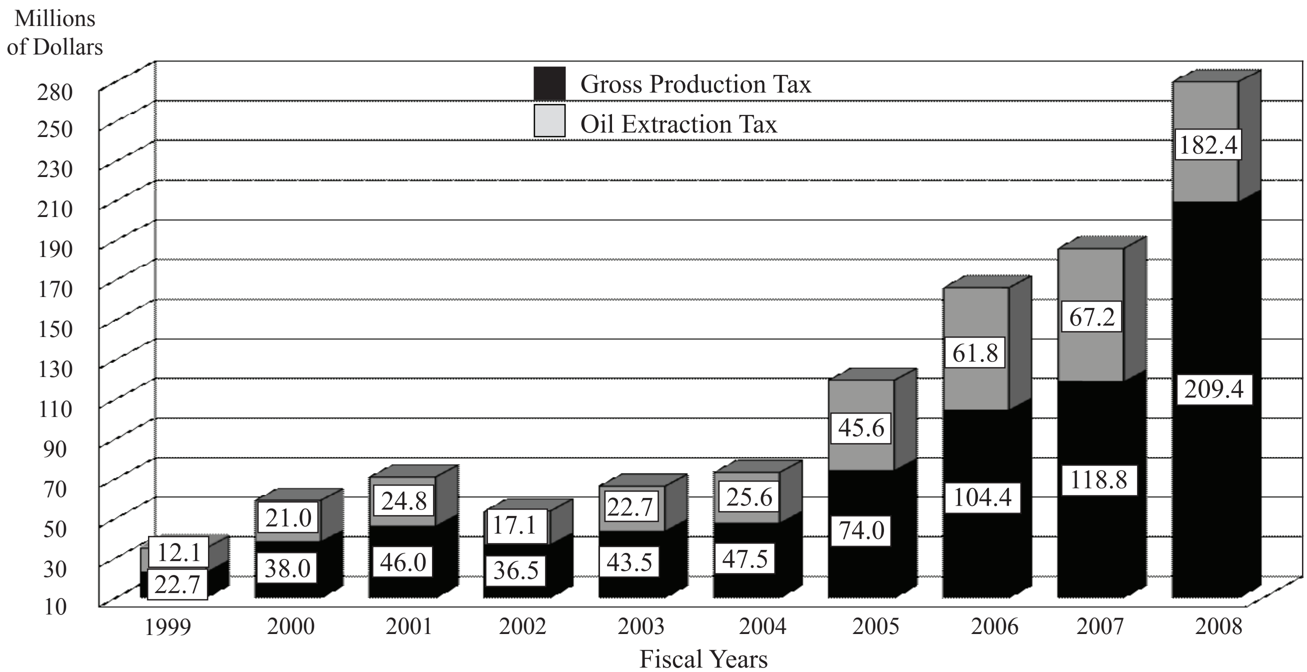
Oil Extraction Tax Revenue

Fiscal Year	Total Net Collections	State General Fund
1998	15,328,212	9,373,218
1999	12,074,588	7,329,895
2000	21,023,977	12,321,301
2001	24,793,997	10,853,065
2002	17,068,846	10,466,737
2003	22,618,069	13,587,968
2004	25,638,914	15,291,025
2005	45,566,628	27,301,469
* 2006	61,767,934	25,225,881
* 2007	67,187,829	-0-
* 2008	188,011,926	31,691,685
* 2009 est.	249,081,000	-0-

* Oil and Gas Gross Production tax and oil extraction taxes revenues have a statutory cap of $71 million in distributions to the State General Fund during the 2005-07 and 2007-09 bienniums. That cap was reached in FY 2006 and FY 2008.

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections

Trends in Oil and Gas Tax Collections

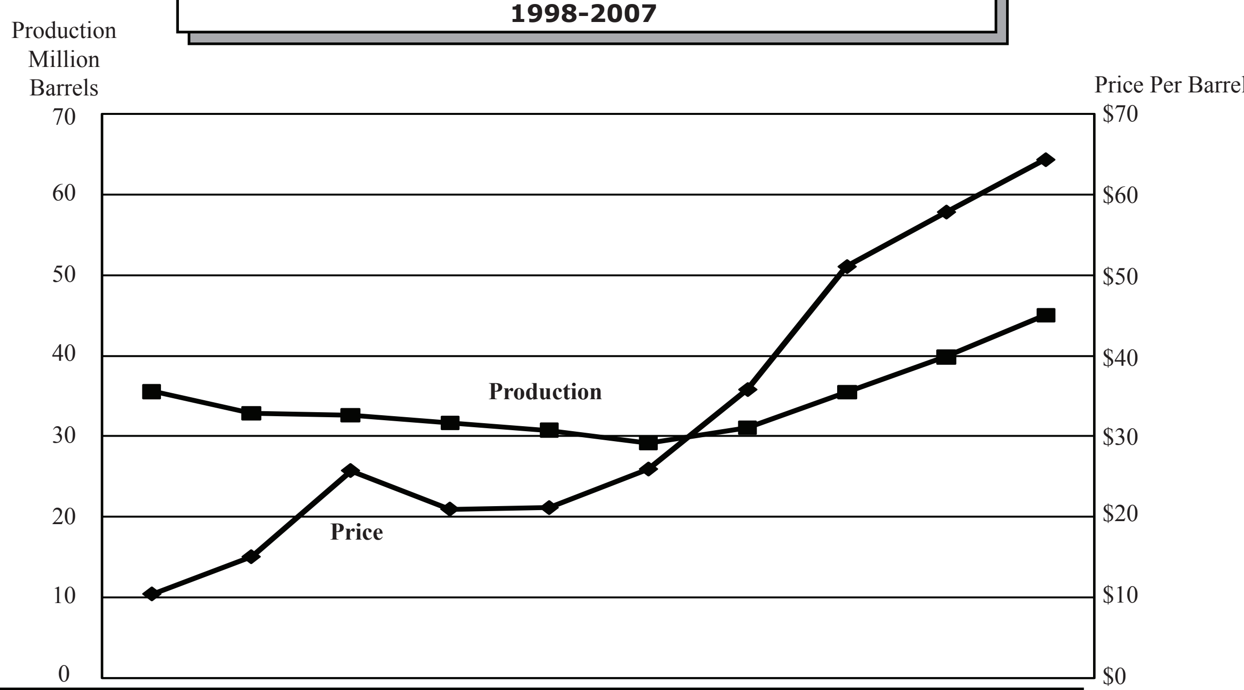


SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections.

North Dakota Oil Statistics

Monthly Production and Tesoro Field Price for Sweet Crude

1998-2007



Calendar Years	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Price ◆	10.47	15.09	25.78	21.00	21.18	25.97	35.83	51.09	57.86	64.36
Production ■	35.6	32.9	32.7	31.7	30.8	29.2	31.1	35.5	39.9	45.1

Oil Taxes in the 14 Major Oil Producing States

September 2008

State	Severance or Gross Production Tax Rate	Local Ad Valorem Taxes Effective Rate	Misc. Taxes	Total Taxes	Annual Production (Million Barrels) 2000	2002	2004
Alaska	0% to 15.0%	*		0% - 15.0%	355.2	359.3	332.5
California [1]		1%		1%	271.1	258	240
Colorado [7]	2% to 5%	4% to 10%	0.14%	7.14%	18.5	17.7	22.1
Kansas [5]	4.33%	3.67%		8%	34.5	32.7	33.9
Louisiana	3.125% to 12.5%	*		3.125% - 12.5%	105.4	93.5	83.4
Michigan	4% to 6.6%	*		6.6%	7.9	7.2	6.4
Mississippi	0% to 6.0%	*		0% - 6.0%	19.8	18	17.2
Montana [2]	0.76% to 15.06%			0.76% - 15.06%	15.4	16.9	24.7
New Mexico	0% to 3.75%	1.18%	3.34%	4.52% - 8.27%	67.2	67	64.2
NORTH DAKOTA[4]	5.0%, 7.0%, 9.0%, or 11.5%	*		5% - 11.5%	32.7	31	31.2
Oklahoma	0% to 7.0%	*		7%	70.0	66.6	62.5
South Dakota	4.5%		.24%	4.74%	1.2	1.2	1.4
Texas [3]	0% to 4.6%	4% to 5%	½ cent per bbl.	4.0% - 10.% plus ½ cent per bbl.	443.4	412	392.9
Utah [3] [6]	0%, 3.0% or 5.0%	4% to 5%	0.2%	0% - 5%% + ad valorem (4%-5%)	15.6	13.7	14.6
Wyoming	2% to 6.0%	6.7%		8.7% - 12.7%	60.7	54.7	51.6

* Severance (or gross production) tax is in lieu of local property taxes on the oil.

(1) California's statutory tax rate is 1% but is subject to increases based on needs to retire voter approved credit.

(2) Montana's tax rates vary based on the type of well, when the well was drilled, and whether the taxpayer has a working or non-working interest. A portion of the production tax is allocated back to local governments in lieu of property taxes.

(3) Texas and Utah have property taxes on oil properties but it was not possible for local authorities to estimate an effective percentage rate.

(4) North Dakota, has a gross production tax rate of 5% with no exemptions and oil extraction tax rates of 0.0%, 2.0%, 4.0% and 6.5%.

(5) Kansas has an 8.0% severance tax but allows a credit of up to 3.67% for property taxes paid on oil properties. The severance tax is based on value. Actual rate paid after credit is 4.33%.

(6) Utah's severance tax is 3% on the first $13 per barrel and 5% on any amount over $13 per barrel.

(7) Colorado has a 2% to 5% severance tax but allows 87½% of local property taxes as a credit against the tax. Since property taxes average about 7% this credit generally eliminates the severance tax liability.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Oil and Gas Section, September 2006. Interstate Oil and Gas Compact Commission and the Dept. of Energy.

Alaska

Effective April 2006, the oil and gas production tax system in Alaska changed from a tax on the gross proceeds of oil and gas production to a tax on the net proceeds of oil and gas production. Originally called the Petroleum Profits Tax (PPT), the Alaska legislature made several additional changes to the production tax in November 2007, resulting in the Alaska Clear and Equitable Share (ACES) production tax. The tax is calculated on oil and gas producing companies operating in Alaska as follows:

ACES Tax Liability = [Value - Costs * Tax Rate] - Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil and Gas Produced x Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 25% + 0.4% for every $1 per barrel that this "net income" exceeds $30, up to $92.50 net per barrel, at which point the tax rate = 50% + 0.1% for every $1 per barrel increase in net income, up to a total tax rate of 75%

Credits = (20% x Capital Expenditures)* + (20% x Eligible Transition Expenditures)** + Base Allowance

* Spread over two years

** Limited to those credits earned while the PPT was in effect and could not be used

In addition to the production tax, oil production is subject to two separate surcharges of 4¢ and 1¢ per barrel. The 1¢ per barrel is reactivated when the balance in the conservation fund it supports falls below $50 million. The 1¢ surcharge was reactivated on April 1, 2007.

Oil reserves are not subject to ad valorem property taxes in Alaska, but equipment and physical property used in the production of oil and gas are, at a rate of 20 mills, or 2% of assessed value.

Incentives. The oil and gas production tax system offers several different types of tax credits to be used against the production tax liability (see ACES Tax Liability calculation above). Most of these credits may be sold or transferred, and they do not expire. For example, the ACES tax offers credits for up to 20% of qualified capital expenditures against a tax liability in a given period, and credits of up to 30% and 40% for certain exploration-related capital expenditures. Credit in the amount of 25% of a company's net loss for the period may be redeemed under the production tax system. Companies producing less than 50,000 barrels of oil equivalent per day are eligible for a tax credit in the amount of $12 million annually.

California

California levies ad valorem taxes on real property, including mineral properties. Values are determined and assessed at the county governmental level. The statutory tax rate is 1%, but is subject to increases based on needs to retire voter approved debt. In fiscal year 2000-2001 the rate varied from 1.000 to 1.166%. Values are based on an adjusted acquisition value or the current market value, which ever is lower. Adjustments to acquisition value are made for depletion and increases in reserves and added or removed improvements.

There are no statewide severance taxes levied in California. Some local municipalities levee a severance tax. A nominal per barrel fee is collected to fund the Department of Conservation, Division of Oil, Gas & Geothermal Resources. For fiscal year 2008-2009 the fee was $0.790758 per barrel of oil or ten thousand cubic feet of gas.

Colorado

Colorado has a 2% to 5% severance tax but allows 87.5% of local property taxes as a credit against the tax. Since property taxes average about 7%, this credit generally eliminates the severance tax liability.

A conservation tax of 0.14% is administered by the Oil and Gas Conservation Commission.

Kansas

Kansas levies an 8% value-based severance tax but all oil properties receive a 3.67% credit for property taxes paid. The net severance tax rate for all taxable production is 4.33%. "Minimum production" (stripper) wells are exempt but eligibility is based on the depth of the well and the spot price of crude oil. Effective May 1, 2000, wells under 2,000 feet must have five barrels per day of production or less, while deeper wells may have six barrels per day or less, depending on the price. (If the well is using waterflood, the required barrels per day are adjusted to six and seven, respectively.) Stripper status is granted to wells with higher daily production in times of lower price. All tertiary recovery oil is eligible for an exemption.

Kansas also levies a volume-based 9.1% conservation fee administered by the Kansas Corporate Commission.

<u>Incentives.</u> A “new pool” incentive provision exempts oil from newly discovered pools for a period ending two years from the date of first production.

A tax exemption is also available for wells that have completed production enhancement projects or were new discoveries using three-dimensional seismic studies. The tax exemption is good for 7 years but is dependent on the price of oil in the previous calendar year. This exemption is 4.33%. “Minimum production” (stripper) wells are exempt but eligibility is based on the depth of the well and the spot price of crude oil. Effective May 1, 2000, wells under 2,000 feet must have five barrels per day of production or less, while deeper wells may have six barrels per day or less, depending on the price. (If the well is using waterflood, the required barrels per day are adjusted to six and seven, respectively.) Stripper status is granted to wells with higher daily production in times of lower price. All tertiary recovery oil is eligible for an exemption.

Kansas also levies a volume-based 9.1% conservation fee administered by the Kansas Corporate Commission.

<u>Incentives.</u> A “new pool” incentive provision exempts oil from newly discovered pools for a period ending two years from the date of first production.

A tax exemption is also available for wells that have completed production enhancement projects or were new discoveries using three-dimensional seismic studies. The tax exemption is good for 7 years but is dependent on the price of oil in the previous calendar year. This exemption is subject to a price trigger.

Louisiana

A 12.5% severance tax is levied in lieu of all other taxes, including ad valorem taxes, on the oil and condensate production. Stripper wells (those with production of 10 barrels per day or less) are taxed at 3.125%, while “incapable” wells (those producing between 10 and 25 barrels per day and having at least a 50% S & W) are taxed at 6.25%. Tertiary recovery wells are exempt from severance tax until the tertiary project reaches payout.

Louisiana also levies an “oil field site restoration fee” of 1.5¢ per barrel. The fee is reduced to 0.75¢ per barrel for incapable wells and 0.375¢ per barrel for stripper wells.

An "oil spill contingency fee" of 2¢ per barrel is levied on crude oil loaded or off loaded at a marine terminal facility in Louisiana waters. This fee is collected and remitted by the marine terminal operator.

<u>Incentives.</u> Oil production from certified deep wells and horizontal wells is exempt from severance tax for a period of two years or until payout of well costs, whichever occurs first. Oil production from certified wells is exempt for any month in which the gross value is below $20 per barrel. Oil production from wells certified as inactive (being inactive for two or more years or only having 30 days or less production during the past two years prior to being returned to service) shall be exempt from severance tax for five years.

Michigan

Michigan levies a severance tax of 6.6% on oil and 5.5% on gas based on the gross cash market at the place where production was severed from the soil. Michigan also levies an oil and gas maintenance fee that is used for monitoring wells. This fee changes from year to year and is .75% for fiscal year ending September 30, 2008.

<u>Incentives.</u> Michigan offers a reduced rate of 4% for oil produced from stripper wells and marginal properties.

Mississippi

Mississippi levies a 6% severance tax on the value of production at the mouth of the well. A maintenance tax of 4.4¢ per barrel and 0.5¢ per MCF is administered by the Oil & Gas Board.

<u>Incentives.</u> Beginning April 1, 1994, wells that use an approved Enhanced Oil Recovery method receive a 3% reduced rate.

Montana

Tax rates vary by type of production, by the date the well was drilled, and for working interests and non-working interests. The following is a summary of the tax rates effective January 2, 2000.

	Working Interest	Non-Working Interest
• Primary Recovery Production		
First 12 months	0.76%	15.06%
Pre-1999 Well	12.76%	15.06%
Post-1999 Well	9.26%	15.06%
• Stripper Production[(1)]		
First 1-10 barrels	5.76%	15.06%
Over 10 barrels 9.26%	15.06%	
Stripper well exemption	0.76%	15.06%
Stripper well bonus production	6.26%	15.06%
• Horizontally Drilled Wells		
First 18 months	0 .76%	15.06%
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%
• Incremental Production [(2)]		
Secondary Production	8.76%	15.06%
Tertiary Production	6.06%	15.06%
* Horizontally Recompleted		
First 18 months 5.76%	15.06%	
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%

(1) Stripper oil is oil produced from any well that produced less than 10 barrels a day for the calendar year immediately preceding the current year.

(2) This is the volume of oil in excess of the production decline curve as approved by the Board of Oil and Gas Conservation.

New Mexico

New Mexico levies four tax types on the value of oil. An intergovernmental production tax credit of 75% of the lesser of the state tax rate or the Native American tax rate on the value of new production severed within the boundaries of Native American tribal land is given to each tax type.

Severance Tax: 3.75% of value of oil. Incentives include 1.875% on qualified enhanced recovery projects, 2.45% on qualified workover wells, and variable rates on stripper properties. A 10-year exemption is given to qualified production restoration projects.

Most of the incentives (well workover, production restoration, and enhanced oil recovery) are tied to posted prices of WTI crude and subject to an exemption sunset based on a statutory price threshold. These incentives have now been subjected to the sunset provisions through April 2005. Similarly, the stripper incentive has been subject to the statutory sunset provisions based on reported prices since 2001 and currently the incentive will not apply until at least April 2005.

Emergency School Tax: 3.15% of value of oil with variable rates on stripper properties.

Conservation Tax: 0.19% of the value of oil.

Ad Valorem Production Tax: Rates vary and are established by producing counties and school districts and are effective each September.

A Tribal Capital Improvements Credit of seven-tenths of one percent is available for products subject to the oil and gas emergency school tax and severed from qualifying wells located on Jicarilla Apache tribal land.

Oklahoma

Oklahoma Gross Production Tax is a severance tax that is in lieu of Ad Valorem Tax and is levied upon the production of oil and natural gas produced in Oklahoma. The tax dates back to 1910 when the rate was 0.5% of the gross value of the product produced. Today the gross production tax rate is a variable rate tax based on the monthly average price of both oil and gas as determined by the Oklahoma Tax Commission.

Oil

The Gross Production Tax rate on oil is as follows:

- If the average price of Oklahoma oil equals or exceeds Seventeen Dollars ($17.00) per barrel, the tax shall be seven percent (7%) of the gross value.
- If the average price of Oklahoma oil is less than Seventeen Dollars ($17.00) but is equal to or exceeds Fourteen Dollars ($14.00) per barrel, then the tax shall be four percent (4%) of the gross value.
- If the average price of Oklahoma oil is less than Fourteen Dollars ($14.00) per barrel, then the tax shall be one percent (1%) of the gross value.

Gas

The Gross Production Tax rate on gas is as follows:

- If the average price of Oklahoma gas equals or exceeds Two Dollars and Ten Cents ($2.10) per mcf, the tax shall be seven percent (7%) of the gross value.
- If the average price of Oklahoma gas is less than Two Dollars and Ten Cents ($2.10) but is equal to or exceeds One Dollar and Seventy Five Cents ($1.75) per mcf,

then the tax shall be four percent (4%) of the gross value.
- If the average price of Oklahoma gas is less than One Dollar and Seventy-Five Cents ($1.75) per mcf, then the tax shall be one percent (1%) of the gross value.

Oklahoma also levies a Petroleum Excise Tax on the production of oil and gas equal to ninety-five one thousandths of one percent (.095 of 1%) of the gross value of the product.

Gross Production Incentive Rebates. In an effort to sustain the existing production of oil and gas in Oklahoma and encourage the drilling of new wells, legislation was enacted in 1994 that exempts the Gross Production Tax levied on oil and gas produced from certain wells. The exemption is equal to 6/7ths of the 7% Gross Production Tax and is rebated back to producers of qualified wells. Producers are eligible to file claims for refund on a July through June fiscal year basis.

Wells qualifying for the exemption are as follows:

- Horizontally Drilled Wells,
- The reestablished production of a well that was non-productive for one year,
- Production enhancements such as workovers and recompletions,
- Wells drilled and completed at a depth of 12,500 feet or greater,
- Wells classified as "New Discovery",
- Wells meeting the criteria as being "Economically at Risk", and
- Wells that are drilled and completed based on 3-D seismic technology.

South Dakota

South Dakota levies a 4.5% oil severance tax and a .24% conservation tax. The tax is determined by multiplying the tax rate times the taxable value less any rental or royalty payment applicable to the United States or the State of South Dakota and its political subdivisions. The taxable value is the posted field price per unit at the point of production.

Texas

Texas levies a 4.6% severance tax on the value of oil produced. This tax is reduced to 2.3% or to 0.00% if the oil qualifies for certain tax incentives. Oil properties in Texas are also subject to normal property taxes and to a 3/16 of a cent per barrel "regulatory tax," as well as a regulatory fee of 5/16 of a cent ($0.003125) per barrel for report periods prior to September 2001 and 5/8 of a cent ($0.00625) per barrel for report periods September 2001 and later.

Incentives. Oil produced from Enhanced Oil Recovery (EOR) projects is taxed at 2.3% of the market value. Oil produced from well bores certified by the Texas Railroad Commission as 2-year or 3-year inactive well bores is exempt from the tax for 10 years. Wells that produce an average of 7 or less barrels of oil equivalent (BOE) a day are eligible for an exemption if the operator implements incremental production procedures to increase the production. The production procedure could be primary, secondary, or tertiary methods. If a primary production technique is used, it must involve an expenditure of at least $5,000. The incremental production is taxed at 2.3% for 5 years. The exemption is active as long as the price of oil, according to Comptroller records remains below $25 per barrel (adjusted to 1997 dollars). Baseline production is taxed at 4.6% of market value. The exemption is suspended if the price reaches $25 or above for three consecutive months and will be reinstated if the adjusted price falls below $25 per barrel for three consecutive months. Oil from Co-Production projects is taxed at 2.3% of market value. Oil producd from wells certified under the Texas Experimental Research and Recovery Activity (TERRA) program is exempt from the tax.

Producers are eligible for a production tax credit for crude oil from low producing wells ranging from 100% if the average price is $22 or less to 0% if the average price is more than $30 per barrel. A certified orphan well put back in production is eligible for a 100% exemption from the oil production tax and the oilfield cleanup fee. Producers are eligible for a tax credit for marginal oil wells when they purchase and install enhanced efficiency equipment that reduces energy use by 10%.

Utah

Utah levies a severance tax of 3% on the first $13 per barrel and 5% on any amount over $13 per barrel. This tax is in addition to a normal ad valorem tax on the reserves and a 0.2% conservation tax. Stripper wells, defined as wells that produce 20 barrels per day or less, are exempt from the severance tax.

Incentives. The first six months' production from any new development well and the first 12 months' production from any new wildcat well are exempt from the tax. All transportation and processing costs can be deducted from value to determine taxable value. There is a 50% tax rate reduction on incremental production achieved from any enhanced recovery project. New workover or recompletion projects receive a 20% tax credit, up to $30,000 per well.

Wyoming

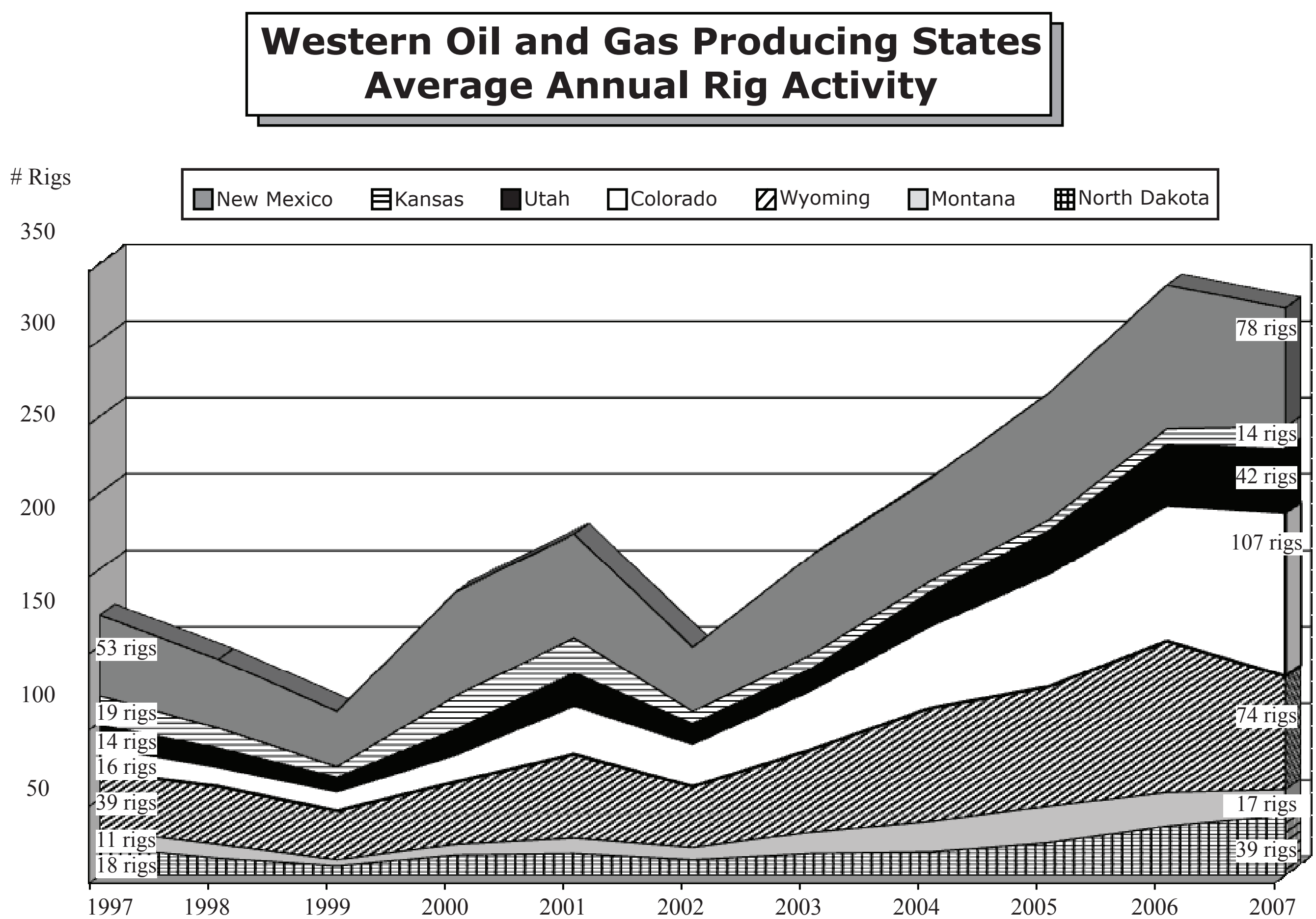
A severance tax is levied at 6% of the value of the oil produced. Stripper wells and tertiary recovery projects are eligible for a reduced tax rate of 4%. For tertiary projects, the reduced rate is good for five years and applies to production over an established "base level."

The tertiary project must have been certified after March 31, 2003, and before March 31, 2008, and the reduced tertiary rate is no longer allowed in months when the price per barrel equals or exceeds $27.50.

An ad valorem tax is levied on the same value as that used for severance tax purposes but is collected by the counties and based on the applicable local mill rates. Currently, the ad valorem taxes average about 6.7% of the value of the oil produced.

<u>Incentives.</u> Wyoming grants the reduced rate of 2% on the first 60 barrels per day from new wells for 24 months and all incremental oil from workovers and recompletions. New wells must be drilled between July 1, 1993 and March 31, 2003. Workovers or recompletions must be performed between July 1, 1993 and March 31, 2001. In the case of new oil wells, the incentive is canceled if the average price of oil is equal to or exceeds $22 per barrel for the preceding six (6) month period of time.

Oil produced from previously shut in wells is subject to a reduced severance tax rate of 1.5% for five years from the date of first renewed production. Wells must have had no production for two years prior to January 1, 1995. This incentive is canceled if the average price of oil exceeds $25 per barrel for six straight months.



SOURCE: Hughes rig count (annual average). These states have similar geographical formations and similar technologies are used in oil production.

CURRENT LAW

LOCALLY ASSESSED PROPERTY

Imposition, Administration and Distribution of Revenue

All real property, unless specifically exempted, is subject to a property tax. A mobile home used as a residence or business is subject to the tax if it is 27 or more feet long or is attached to utility services.

The property tax is determined by multiplying the mill rate times the taxable value of real property.

The county determines and collects the tax and distributes the revenue to the county, cities, townships, school districts, and other taxing districts. The tax is due January 1 of each year following the year of assessment and is payable without penalty until March 1. A 5% discount is allowed for taxes paid in full before February 15.

Mill Rates

Local mill rates are established to meet the revenue needs of the taxing district. Each taxing district prepares a proposed budget to determine the money needed to provide services. After public hearings, the elected governing bodies adopt final budgets and certify tax levies (total property taxes) to the county auditor. The tax levy may not exceed the legal maximum. The only increases allowed without voter or legislative approval are for property added to the tax rolls. To determine the mill rate, the county auditor divides the total property taxes to be collected for each taxing district by the district's total taxable value.

Taxable Value

Residential. The determination of taxable value begins with the true and full value or market value of the property. The true and full value of residential property is usually established by the local assessor. The assessed value is 50% of the true and full value and the taxable value is 9% of the assessed value.

Commercial. The true and full value of most commercial property is established by the local assessor. The assessed value is 50% of the true and full value and the taxable value is 10% of the assessed value. The true and full value of railroad, public utility, and airline property is centrally determined by the State Board of Equalization (see Centrally Assessed Property on page 82).

Agricultural. The true and full value of agricultural property is based on productivity as established through computations made by North Dakota State University of the capitalized average annual gross return of the land. This information is forwarded to the State Tax Commissioner who certifies to the county directors of tax equalization the estimated average true and full agricultural value of farm and grazing land in each county.

The county tax directors use the certified estimates of the county average agricultural values to determine the average value of agricultural lands within each assessment district in the county. This estimate is based on the relative value of lands for each assessment district compared to the county average. In determining the relative value, the county tax directors are to use soil type and soil classification data from detailed and general soil surveys. In determining the relative value of each assessment parcel, the local assessor applies the following considerations in descending order of significance to the assessment determination:

a. Soil type and soil classification data from detailed or general soil surveys.
b. The schedule of modifiers that must be used to adjust agricultural property assessments within the county as approved by the state supervisor of assessments.
c. Actual use of the property for cropland or noncropland purposes by the owner of the parcel.

The assessed value of agricultural land is 50% of the true and full value and the taxable value is 10% of the assessed value.

Equalization Process. Equalization is a method required by law to adjust assessments so that they are consistent with market value or, in the case of agricultural land, the value of agricultural productivity. Local assessments are reviewed and equalized by either the Township Board of Equalization on the second Monday in April or the City Board of Equalization on the second Tuesday in April. The Board of County Commissioners meets within the first ten days of June to equalize among assessment districts within the county. The State Board of Equalization has the responsibility to equalize among counties and assessment districts in a county and meets the second Tuesday in August.

Exemptions and Credits

Property tax exemptions and credits are listed below according to type of property.

Residential Property:

- Personal property is exempt.
- A property tax exemption of up to five years is available for the value added by rehabilitation or remodeling to property which is 25 years old or older if the city or county approves the exemption.
- Homes owned and occupied by persons who are blind or disabled may be eligible for exemption or partial exemption from property taxes, subject to annual review.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- Qualifying new single-family residences and condominiums may be exempt for two years, provided the exemption is approved by the city or county. The exemption is limited to a maximum of $75,000 of the structure's value.
- A single-family residence located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.
- Homeowners who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age may be entitled to certain property tax credits under the homestead property tax credit program. Qualifications include an annual income of $17,500 or less (including Social Security and pensions) and assets of $50,000 or less (excluding the first $100,000 value of the homestead). A qualifying homeowner may receive a credit to reduce the property's taxable value by up to $3,375. Applications are filed with the local assessor.
  - * In addition, these homeowners may qualify for a special assessment credit which becomes a lien on the real property and must be repaid when the property is transferred.
- Renters who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age and who have an annual income from all sources of $17,500 or less may be entitled to rent refunds under the homestead property tax credit program. Those who qualify may receive rent refunds of up to $240 if 20% of the rent they pay exceeds 4% of their income. Renters apply to the Office of State Tax Commissioner for this refund.

Commercial Property:

- Personal property is exempt.
- A property tax exemption of up to five years and in certain cases up to ten years is available to a qualifying new or expanding business (see page 81, New Business Exemption).
- An exemption of up to five years is available for the value added to property by rehabilitation or remodeling if the city or county approves the exemption.
- The portion of a building used primarily for licensed day care is exempt if the city or county approves the exemption.
- Fixtures, buildings, and improvements used primarily as an adult care center are exempt upon approval by the city or county.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- A cooperative or nonprofit organization that provides water to its members and customers may be eligible for an exemption for its buildings and structures.
- A public parking structure is eligible for an exemption.
- A pollution control improvement is exempt if the city or county approves the exemption.
- A commercial building located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.

Agricultural Property:

- Personal property is exempt.
- Farm structures are exempt if located on agricultural land and used in operations normally associated with farming and ranching. Farm residences are exempt if located on 10 acres or more of agricultural land, if occupied or used by a farmer who normally devotes the major portion of time to farming operations, and if the farmer receives not less than 50% of annual net income from these operations in any one of the preceding three years. The residence is not eligible if the farmer has received more than $40,000 of non-farm income in each of the three preceding years. The income requirements apply to the combined income of the farmer and spouse.
- A qualifying wetland is exempt if the owner signs an agreement to keep the property as wetland. If the land is removed from wetland status, the landowner must repay up to ten years of the taxes forgiven. This exemption is available if funds are available for the state to reimburse the political subdivisions for all revenue losses.
- State-owned land leased for grazing or pasture purposes is exempt. State-owned land leased for growing crops is exempt if payments in lieu of property taxes are made by the state.

Other Property:

- Property owned by a governmental unit is exempt.
- Property owned and used exclusively for religious or charitable purposes is exempt.
- Property belonging to institutions of public charity, used wholly or in part for public charity is exempt.
- Property owned by a religious organization used for religious services of the organization or as a residence for the minister in charge of services is exempt. Property owned by a religious organization may retain its exemption if the property is rented to a tax-exempt organization and no profit is realized from the rent.
- Property owned by a lodge, club, association or like organization is exempt if the organization is nonprofit, if the property is used for meeting and for conducting business or ceremony, and if food or alcoholic beverages are not sold for profit on the premises. This property, however, is subject to taxation by cities for the cost of fire protection services.
- All property belonging to an educational institution and not used for profit is exempt.
- Property owned by a nonprofit corporation and used for promoting athletic and educational needs at a state educational institution is exempt.
- All land used exclusively for burying grounds or cemeteries is exempt.
- Land belonging to a military organization and used as a public park or monument ground and not for gain is exempt.
- Minerals in place in the earth are exempt if, at the time of extraction, they are subject to either the oil and gas gross production tax or the coal severance tax.
- Property of Native Americans, where the title cannot be transferred without the consent of the U.S. Secretary of the Interior, is exempt.
- Forested land may be eligible for a reduced property tax rate of 50 cents per acre.
- All property, including any possessory interest therein, relating to waterworks, mains, water distribution systems, sewage systems, and facilities for the collection, treatment, purification and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision is exempt.
- All property, including any possessory interest therein, belonging to the state or an agency or institution of the state leased to a private entity pursuant to N.D.C.C. § 54-01-02, which property is operated by, or providing services to, the state or its citizens is exempt.
- Property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.

New Business Exemption

Parameters. Any new or expanding business project may be granted a property tax exemption for up to five years. Two extensions are available:

- Agricultural processors may be granted a partial or full exemption for up to five additional years.
- A project which is located in property leased from a governmental entity qualifies for an exemption for up to five additional years upon annual application by the project operator.

In addition to or instead of an exemption, local governments and any project operator may negotiate payments in lieu of property tax for a period of up to 20 years from the date project operations begin.

Qualifications. A qualifying "project" is any new or expanded revenue-producing enterprise. All buildings, structures or improvements used in or necessary to the operation of the project qualify. The structure may be the project's building or the project's quarters within a larger building. An exemption may not be granted for land. A project is not eligible for an exemption if the project received a tax exemption under tax increment financing or if the governing body determines the exemption fosters unfair competition or endangers existing business.

Application Procedures. The project operator applies to the city governing body if the project is located within city boundaries. If the project is located outside city boundaries, application is made to the county commission.

- The application for exemption must be made and approved before construction of a new structure begins. If the project will occupy an existing structure, application must be made and approved before the structure is occupied. Application for payments in lieu of property tax need not be made prior to commencement of construction or occupancy of an existing building.
- If the city or county governing body determines there are local competitors, the project operator must publish two notices in the official newspaper of the city or county at least one week apart, and the last notice must be published at least 15 days, but not more than 30 days, before the city or county considers the application. For example, notices published one week apart on May 1 and May 8 are appropriate for a hearing scheduled anytime between May 23 and June 7.

- The city or county governing body holds a public hearing on the application.
- After the public hearing, the city or county governing body acts on the application.

CENTRALLY ASSESSED PROPERTY

Assessment Procedures

Assessments for property tax purposes of railroads, investor-owned public utilities, and airlines are determined by the State Board of Equalization. The assessed value of centrally assessed property is 50% of the true and full value and the taxable value is 10% of the assessed value for all centrally assessed property except wind turbine electric generation units with a nameplate generation capacity of 100 kilowatts or more. Taxable value is 1.5% for units for which a purchased power agreement was executed between April 30, 2005 and January 1, 2006, and construction was begun between April 30, 2005, and July 1, 2006, and for a centrally assessed wind turbine electric generation unit of 100 kilowatts or more on which construction is completed after June 30, 2006, and before January 1, 2011. Taxable value is 3% for all other units on which construction is completed before January 1, 2011. The taxable value of centrally assessed property is subject to property taxes as discussed below for each type of property.

Steps in the assessment process are as follows:

1. The company must file an annual report with the State Tax Commissioner by May 1.
2. The State Tax Commissioner prepares a tentative assessment by July 15.
3. Notice of tentative assessment is sent to the company ten days prior to the State Board of Equalization meeting.
4. The State Board of Equalization meets the first Tuesday in August at the Office of State Tax Commissioner to receive testimony on the value of centrally assessed property and to make the assessments.
5. Following the action of the State Board of Equalization, the State Tax Commissioner certifies the assessments to the counties.

Airlines

A regularly scheduled airline serving North Dakota cities pays a property tax computed by applying the average of all mill levies in the municipalities served by regularly scheduled airlines against the taxable valuation of an airline's operating real property located in North Dakota. The Tax Commissioner collects the tax and the State Treasurer distributes the revenue to the municipalities in which the airline operates. The revenue is used exclusively for airport purposes.

Public Utilities

Centrally assessed public utilities are investor-owned power, gas and pipeline companies. The tax for telecommunications carriers is discussed below. The taxable value of a utility's North Dakota real and personal operating property is subject to the mill levies of the taxing districts in which the property is located.

The tax is collected by the county and distributed to the taxing districts within the county.

A 10-year exemption is allowed for pipelines carrying CO_2 for use in enhanced recovery of oil or natural gas. The state reimburses political subdivisions for the lost tax revenue.

A transmission line of 230 kilovolts or larger, and its associated transmission substations, initially placed in service or substantially expanded on or after October 1, 2002, is exempt from property taxes for the first taxable year. Subsequent years' taxes must be reduced by 75% for the second year, 50% for the third year, and 25% for the fourth year. After the fourth year, the transmission line and substations are exempt from property taxes and are subject to a tax of $300 per mile.

Railroads

Railroad operating real property is taxed at the mill rates of the taxing districts in which the property of the railroad is located. The tax is collected by the county and distributed to the various taxing districts within the county.

TAXES PAID IN LIEU OF PROPERTY TAXES

Telecommunications Carriers

Telecommunications carriers are assessed a tax of 2½% of their adjusted gross receipts by the State Board of Equalization. The gross receipts tax is paid annually to the Tax Commissioner. The state allocates $8.4 million annually to the counties for distribution to political subdivisions. Revenue in excess of $8.4 million is deposited in the state general fund.

Rural Electric Cooperatives

Rural electric generation, transmission and distribution cooperatives pay a gross receipts tax instead of a property tax on all property except land, which is assessed locally. The gross receipts tax is 1% during the first five years of business and 2% thereafter. The tax is paid annually to the county. The revenue is apportioned to each county according to the miles of lines the cooperative has in the county compared to its total miles of line and is distributed to the taxing districts within the county.

Rural electric cooperatives which have at least one unit with a generating capacity of 100,000 kilowatts or more pay a transmission line tax of $225 per mile on transmission lines of 230 kilovolts or more. This tax is collected annually and the revenue is apportioned among the counties in which the lines are located according to the number of miles in each county. The revenue goes to the county general fund. The tax on a transmission line of 230 kilovolts or larger initially placed in service or substantially expanded on or after October 1, 2002, is $300 per mile. The tax does not apply for the first taxable year. The second year's taxes must be reduced by 75%, the third year's taxes by 50%, and the fourth year's taxes by 25%.

Coal Conversion Facilities

The coal conversion tax is in lieu of property taxes on investor-owned or cooperative electrical generating plants which have at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, other coal conversion facilities consuming 500,000 tons or more of coal per year, or coal beneficiation plants. (See page 21.)

Tourism or Concession License Fee

A license fee in lieu of property taxes is payable for state-owned property leased from the Superintendent of the State Historical Board or the Director of State Parks and Recreation and used for tourism or concession purposes. The fee is set by the superintendent or by the director and is at least $1, but not more than 1% of the tenant's gross receipts. The tenant pays the license fee to the county treasurer, who deposits the payment into the county general fund.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1981. Prior to the 1981 Legislative Session, the standard of value was market value, but property was assessed at a fraction of its market value. By law, all real property was in one class, but a de facto classification system existed. Limitations were imposed on the number of mills which could be levied.

1981 Session
- Changed the procedures for determining the value of property for tax purposes to include methods of establishing the true and full value, assessed value, and taxable value of property, according to a new classification system.
- Placed limits on the dollar amount of change in a levy rather than on the number of mills that could be levied.
- Allowed up to a 7% increase in the number of dollars levied.
- Increased the maximum qualifying income for the homestead credit and renter's refund from $9,000 to $10,000 per year.

1983 Session
- Allowed for a 4% increase in the number of dollars levied.
- Authorized cities and counties to give two-year exemptions for new single-family, condominium, or townhouse property.
- Increased the new business exemption's cost and sales limitations from $100 million to $150 million.

1985 Session
- Allowed for a 3% increase in the number of dollars levied.
- Enacted an exemption for qualifying wetlands, effective for tax years beginning after December 31, 1986.
- Increased the maximum qualifying income for homestead credit and renter's refund from $10,000 to $12,000 per year.

1987 Session
- Allowed for a 5% increase in the number of dollars levied.
- Removed limitations on the type of business qualifying for the new business exemption, in effect, including service and retail industries. Previously, the exemption was limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral, or manufactured product.

1989 Session
- Allowed for a 5% increase in the number of dollars levied.
- Enacted an exemption for day care in commercial property.
- Expanded the exemption for religious organizations to include property rented to a tax-exempt organization.
- Increased the maximum qualifying income for the homestead credit and renter's refund from $12,000 to $13,000 per year.
- Repealed the requirement that the State Board of Equalization approve the property tax exemption for new businesses.
- Excepted property in cities of 3,000 population or less from the vacancy requirement in the new business exemption law.
- Excluded projects exempt under tax increment financing from the new business exemption.
- Extended the allowable property tax exemption to up to ten years for new projects located in property leased from a governmental entity.

1991 Session
- Allowed for a 4% increase in the number of dollars levied.
- Broadened the property tax exemption to include expanding businesses.
- Decoupled the property tax exemption from the income tax exemption.
- Repealed the vacancy requirement for existing buildings.
- Provided a partial exemption for the sixth through tenth years for projects that produce or manufacture a product from agricultural commodities grown in North Dakota.
- Enacted a ten-year exemption for pipelines carrying CO_2 to an enhanced recovery project in a North Dakota oil field.
- Provided for a license fee in lieu of property taxes for certain state-owned property leased for tourism or concession purposes.
- Provided for a 50-cents-per-acre property tax rate for forested land and several administrative changes.

1993 Session
- Set the maximum levy increase at 3% for taxes payable in 1994 and 2% for taxes payable in 1995.
- Permitted cities and counties to exempt pollution control improvements.
- Granted an exemption for state-owned land leased for grazing or pasture purposes.
- Granted an exemption for state-owned land leased for growing crops if payments in lieu of taxes are made by the state.
- Increased the maximum qualifying income for the homestead credit and renter's refund from $13,000 to $13,500 per year beginning with the 1995 tax year.

1994 Special Session
- Removed project size limitations from the new or expanding business tax exemption, allowing large projects to qualify.
- Changed the extended exemption for agricultural processors from a partial exemption to either a partial or complete exemption.
- Enabled a local government and any project operator to negotiate payments in lieu of property taxes for a period of up to 20 years.

1995 Session
- Allowed for a 2% increase in the number of dollars levied for taxes payable in 1996 and 1997.
- Provided that the only increase allowed after 1998 without voter or legislative approval is for property added to the tax rolls.
- Exempted railroad personal property from property taxes.
- Required that before a city or county grants a new and expanding business exemption or payments in lieu of taxes, the affected school districts and townships must be consulted.

1997 Session
- Allowed for a 2% increase in the amount levied to match federal funds.
- Required the state water commission to make payments in lieu of taxes for land acquired for the Devils Lake project.
- Extended the agricultural production data used by NDSU for the agricultural land formula to a ten-year period for the 2000 assessment.
- Made permanent a 50% expense allowance for agricultural revenue from irrigated cropland.
- Allowed the temporary requirement that school districts and townships be consulted before granting a new business property tax incentive to expire.
- Defined the income requirement for the farm residence exemption as more than 50% from farming activities in any one of the preceding three years.
- Increased allowable nonfarm income to $40,000 during each of the preceding three years.
- Provided that park model trailer owners could pay a fee of $20 per year to the motor vehicle department to exempt the trailer from taxation as a mobile home for tax years 1997 and 1998.
- Increased the maximum general fund tax levy for fire protection districts from 10 to 13 mills.

- Gave the state engineer authority to take remedies when man-made objects situated in, on the bed of, or adjacent to a navigable lake are, or are imminently likely to be, a menace to life or property or public health or safety; and to assess costs of action against any property of the person responsible.
- Changed the agricultural property definition for property platted after March 30, 1981.
- Provided that a pipeline and associated equipment, not including land, constructed after 1996 for transportation or storage of CO2 for use in enhanced recovery of oil or natural gas is tax exempt during construction and the first ten full taxable years. The property is subject to assessment by the State Board of Equalization and payments in lieu of taxes by the State Treasurer during the time it is exempt.

1999 Session.

- Made income and expense statements provided by commercial property owners to assessors confidential.
- Allowed an abatement of property tax for damage to a building, mobile home, structure, or other improvement caused by natural disaster.
- Increased the income limitation for the homestead credit and renter's refund from $13,500 to $14,000.
- Made permanent the $20 permit fee for a park model trailer in lieu of the mobile home tax.
- Expanded the farm building exemption to include feedlots and buildings used primarily, rather than exclusively, for farming purposes.
- Allowed depreciation expense as an addition to net farm income for the farm residence exemption.
- Granted the farm residence exemption to beginning farmers.
- Established a class of inundated agricultural property that is assessed at 10% of the noncropland value.
- Changed the agricultural land valuation formula to require inclusion of a production cost factor.
- Made permanent the requirement that school districts and townships be included in the negotiations for the new business exemption.
- Changed the payments in lieu of taxes for new businesses to include existing buildings as well as new buildings.
- Extended the period of exemption for remodeling from three to five years and allowed an addition to an existing building to be exempted as an eligible improvement.
- Changed the tax deed proceedings from a sale of tax delinquent property to foreclosure of tax lien.
- Changed the county levy for social security to allow up to five mills to be used for county automation and telecommunications.
- Increased the levy of a tax for programs and activities for senior citizens by a county or city from one to two mills.
- Provided that a school district may levy up to 15 mills for removal or abatement of asbestos in school buildings and for providing an alternative education program.

2001 Session.

- Required that when the board of county commissioners rejects an application for abatement, a written explanation of the rationale for the decision must be attached to the application and mailed to the applicant.
- Provided that the taxable value of a centrally assessed wind turbine electric generation unit with a capacity of 100 kwh or more is 3% of assessed value.
- Provided that a county officer or employee will not refund a fee or tax of less than $5.00.
- Provided that a municipality may provide partial or complete exemption of residential property, exclusive of land, if the property was rehabilitated by an individual for the primary place of residence as a renaissance zone project. Provided for exemptions of buildings, structures, fixtures and improvements rehabilitated as a zone project for any business or investment purpose. A taxpayer may not be delinquent in payment of any state or local tax to benefit from those provisions.
- Defined inundated agricultural land as agricultural property containing a minimum of 10 contiguous acres if the value exceeds 10% of the average agricultural value of noncropland for the county. Provided the land must have been unsuitable for growing crops or grazing farm animals for at least two consecutive growing seasons, and produced revenue less than the county average revenue per acre for noncropland.
- Required a nonprofit organization to make payments in lieu of taxes on property acquired for conservation.
- Provided that a township may defray expenses of improvements by special assessment.

2003 Session.

- Provided that land acquired by tax deed must be sold to the highest qualified bidder. Provided that a person is unqualified to be the highest bidder for property if the person owes delinquent taxes to any county.
- Provided that any privately owned structure, fixture, or improvement located on state-owned land is not exempt from special assessments levied for flood control purposes if it is used for commercial purposes, unless it is primarily used for athletic or educational purposes at a state institution of higher learning.
- Exempted from property taxation all property including any possessory interest therein, relating to any waterworks, mains, and water distribution system,

or sewage systems and facilities for the collection, treatment, purification, and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision.
- Exempted from property taxation any property, including any possessory interest therein, belonging to the state or any agency or institution of the state, leased to a private entity pursuant to N.D.C.C. § 54-01-27, which property is operated by, or providing services to, the state or its citizens.
- Provided that property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.
- Provided for one year's exemption and three years of graduated tax rates for new or substantially expanded investor-owned and cooperative-owned transmission lines of 230 kilovolts or larger, and associated transmission substations, initially placed in service on or after October 1, 2002. After the fourth year, those lines are taxed at $300 per mile.
- Provided that the rate used for capitalization of the average annual gross return of agricultural land may not be less than 9.5%.

2005 Session.
- Created the North Dakota transmission authority. Provided that transmission facilities built under the authority are exempt from property taxes for a period not to exceed five years. After the initial period, transmission lines of 230 kilovolts or larger and associated transmission substations are subject to a per-mile tax at the full rate and subject to the same manner of imposition and allocation as imposed on cooperative-owned transmission lines.
- Required the county auditor to certify if there is an unsatisfied lien for homestead credit for special assessments against land in a document presented for transfer. Provided that the county recorder may not record any deed for property on which the county auditor has determined that there is an unsatisfied lien for homestead credit for special assessments, except for a transfer between spouses because of the death of one of them.
- Required a recipient to enter into a business incentive agreement with each grantor of a business incentive granted by the state or a political subdivision. Provided a penalty for a recipient that fails to meet goals.
- Provided that agricultural property includes land on which a greenhouse is located if the land is used for a nursery or other purpose associated with the operation of the greenhouse. Provided that a greenhouse located on agricultural land and used primarily for growing of horticultural or nursery products is a farm building or improvement.
- Provided that a centrally assessed wind turbine electric generation unit with a nameplate generation capacity of 100 kilowatts or more, for which a purchased power agreement was executed after April 30, 2005, and before July 1, 2006, and construction was begun after April 30, 2005, and before July 1, 2006, must be valued at 1½% of assessed value to determine taxable value.
- Increased the maximum qualifying income for the homestead credit and renter's refund from $14,000 to $14,500. Increased the maximum amount of taxable value credit to $3,038. Increased the unencumbered amount of homestead valuation that may be excluded from the asset test for homeowners to $100,000.
- Provided that the rate used for capitalization of the average annual gross return of agricultural land may not be less than 8.9% for 2005 and 8.3% for subsequent years.
- Authorized housing authorities to provide housing for persons of moderate income. Provided that property of an authority used for moderate income housing is exempt from all taxes except special assessments unless specifically exempted from a special assessment by the political subdivision.
- Provided that in lieu of exemption of a park model trailer located in a trailer park or campground, the department of transportation shall register the trailer as a travel trailer for a registration fee of $20 per year.

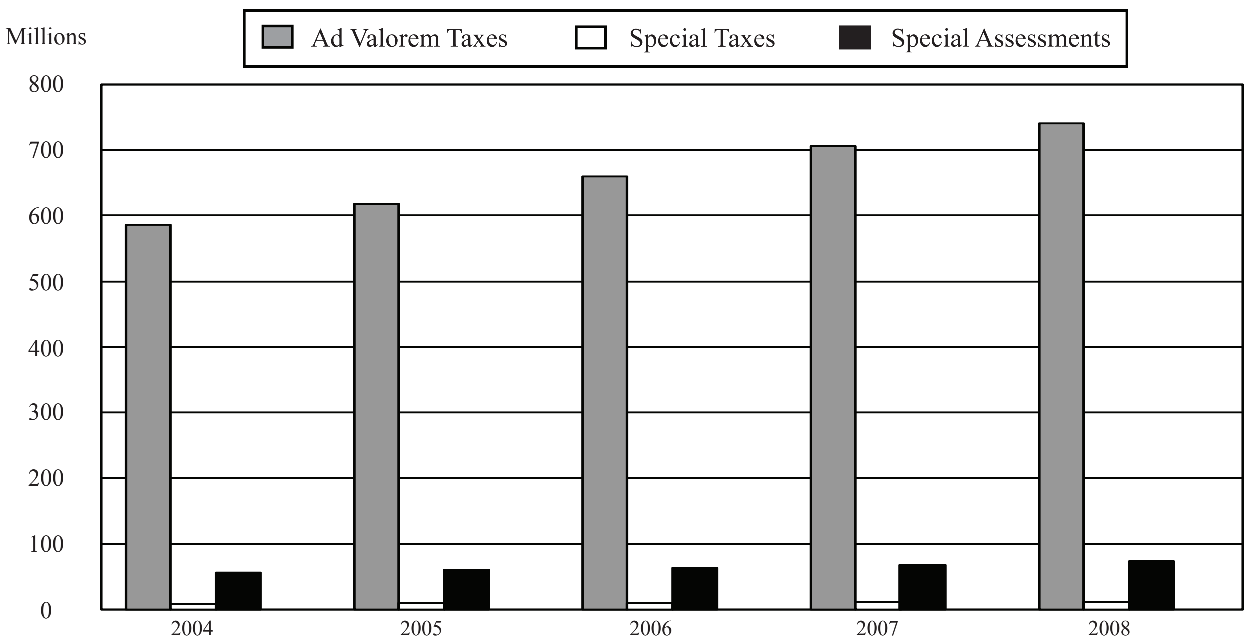
2007 Session
- Provided that a centrally assessed wind turbine electric generation unit with a nameplate generation capacity of 100 kilowatts or more on which construction is completed after June 30, 2006, and before January 1, 2011, must be valued at 1½% of assessed value to determine taxable value.
- Provided that the value of carbon dioxide pipeline property for which payments in lieu of taxes are required must be excluded from the valuation of property in the taxing district for purposes of determining the mill rate for the taxing district.
- Created the North Dakota pipeline authority to facilitate development of pipeline facilities to support production, transportation, and utilization of North Dakota energy-related commodities. Provided for exemption of pipeline property owned by the pipeline authority and constructed after 2006, during construction and for the first five years of operation. The property is subject to assessment by the State Board of Equalization and payments in lieu of taxes by the State Treasurer during the time it is exempt.

- Required a resolution by the board of county commissioners to use any proceeds of a tax levy in excess of the amount needed to match federal funds for surfacing or maintenance of roads within the county road program for which the levy was originally made, or for any new project included in an amended program.
- Defined the uncontested amount of taxes paid under protest as the amount that will be payable if the application for abatement, adjustment, or refund is approved by the board of county commissioners. Provided that the uncontested amount of taxes under protest may be allocated immediately.
- Provided that an applicant for abatement is limited to the relief claimed in the application for abatement.
- Required the county director of tax equalization to use soil type and oil classification data from detailed and general soil surveys to determine the relative value of lands for each assessment district compared to the county average value.
- Required local assessors, in determining the relative value of each assessment parcel, to apply the following considerations in descending order of significance: soil type and soil classification data from the detailed or general soil surveys; the schedule of modifiers approved by the state supervisor of assessments and provided by the county director of tax equalization; and actual use of the property for cropland or noncropland purposes by the owner of the parcel.
- Provided 5% of a county's allocation from the state aid distribution fund shall be withheld from any county that has not fully implemented use of soil type and soil classification data from detailed or general soil surveys for any taxable year after 2009, until implementation is complete.
- Required that during the 2007-2008 interim, each county that has not fully implemented use of soil type and soil classification data from the detailed and general soil surveys shall report to the Legislative Council the reason for failure to do so and the anticipated date for full implementation.
- Provided that unless delinquent taxes, special assessments, penalty, interest, and costs on real property are paid by October 1 of the second year following the year in which taxes became delinquent, the county auditor will foreclose on the tax lien and issue a tax deed to the county.
- Provided that an excess levy may be authorized for a township up to 100% over and above the basic legal limitations.
- Increased the maximum qualifying income for the homestead credit and renter's refund from $14,500 to $17,500 per year for tax year 2007. Increased the maximum taxable value of the homestead that may be exempted to $3,375.
- Required that when any assessor has increased the true and full value of any lot or tract of land and improvements by more than 10% of the last assessment, notice must be delivered or mailed in writing to the property owner, or provided to the property owner by electronic mail with verification of receipt, not fewer than 15 days before the meeting of the local board of equalization.
- Provided that after June 30, 2007, in any school district election for approval of unlimited or increased levy authority, the ballot must specify the number of mills, the percentage increase in dollars levied or that unlimited mill levy authority is proposed for approval, and the number of taxable years for which that approval is to apply.
- Provided that approval of unlimited or increased levy authority may not be effective for more than ten taxable years.
- Provided that the question of authorizing or discontinuing specific number of mills authority or unlimited taxing authority in any school district must be submitted to the electors at the next regular election upon resolution of the school board or filing of a petition signed by 10% of the electors.
- Provided that the property tax statement must include, or be accompanied by a separate sheet with, three columns showing for the taxable year to which the statement applies and the two immediately preceding taxable years, the property tax levy in dollars against the parcel by the county, school district, and city or township.
- Provided for an income tax credit for 2007 and 2008 of 10% of property taxes or mobile home taxes that became due during the income tax taxable year and are paid. See "Historical Overview" under Individual Income Tax on page 50 and Corporation Income Tax on page 27.
- Provided that mobile home tax statements must include three columns showing for the taxable year for which the statement applies and the two immediately preceding taxable years, the property tax levy in dollars against the mobile home by the county, school district, and any city or township that levied taxes against the mobile home.
- Required the Legislative Council to study in each interim through 2012 the feasibility and desirability of property tax reform and providing property tax relief, with the goal of reduction of each taxpayer's annual property tax bill to not more than 1.5% of the true and full value of the property.
- Provided that a certificate from a licensed physician or a written determination of disability from the social security administration is acceptable proof of permanent and total disability for purposes of the homestead credit and renter's refund.

- Increased the true and full value of improvements owned and occupied as a homestead for which a paraplegic disabled veteran may receive property tax exemption from $80,000 to $120,000.
- Repealed the income test for a disabled veteran with 50% or greater certified rated service-connected disability.
- Provided that a disabled veteran with a 50% or greater certified rated service-connected disability is eligible for an exemption equal to the percentage of the disabled veteran's disability applied against the first $120,000 of true and full value of improvements owned and occupied by the disabled veteran as a homestead.
- Provided that after the initial filing of a claim for exemption, the exemption is automatically renewed each year, but the veteran or veteran's unremarried surviving spouse must re-file if that person sells the property or no longer claims it as a primary place of residence, or if the veteran dies or receives a change in the percentage of certified rated service-connected disability.
- Provided that the disabled veteran's exemption does not apply within a county in which a resolution adopted by the board of county commissioners is in effect disallowing the exemption for the taxable year.
- Provided that the governing body of a city may establish valuations that recognize the supply of vacant lots available for sale.

Ad Valorem and Special Property Taxes Levied

Payable in 2004-2008

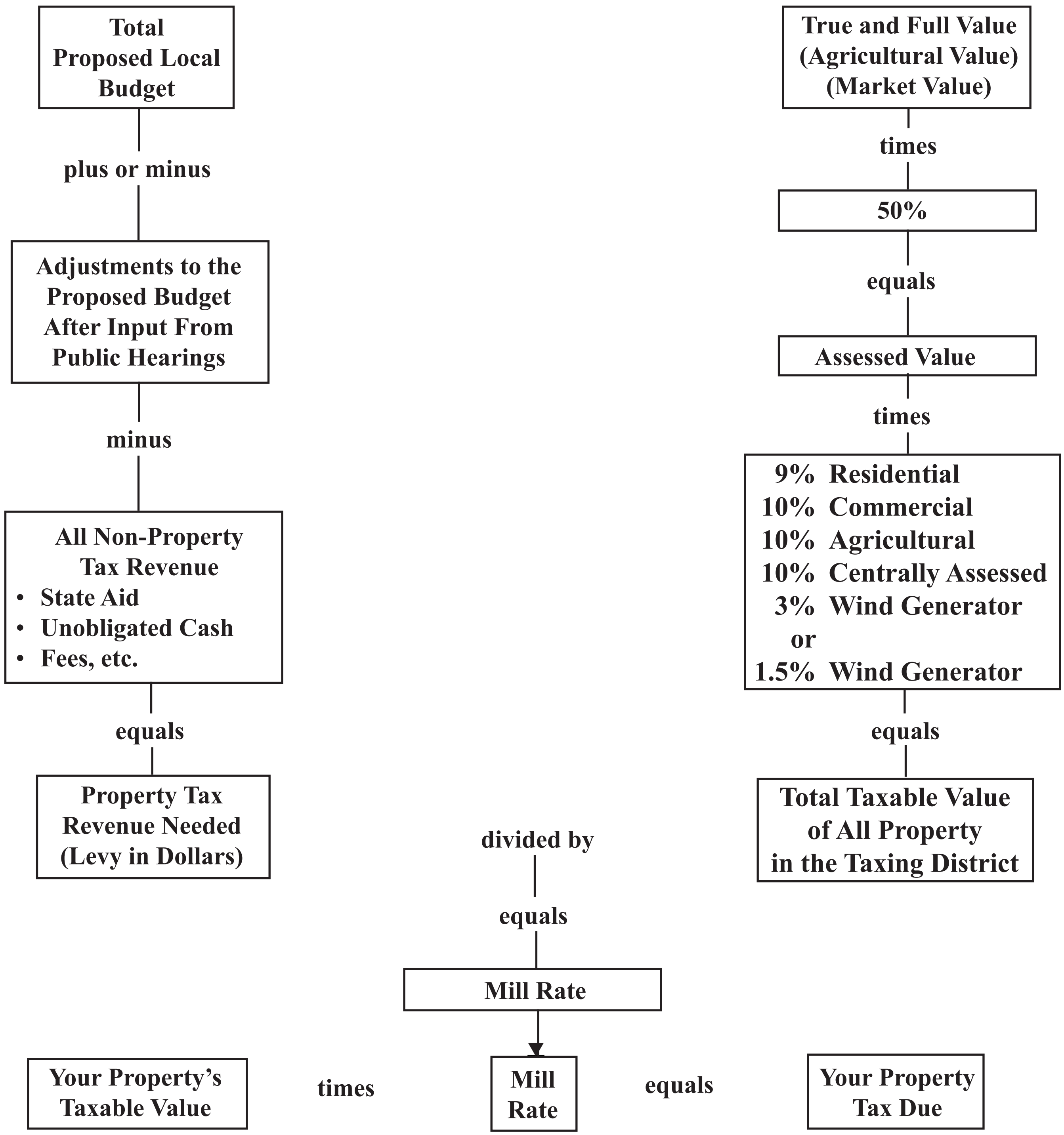


Year Payable	Total Taxes and Special Assessments	Ad Valorem Property Taxes: Real Estate [1]	Ad Valorem Property Taxes: Utilities [2]	Special Property Taxes: Special Taxes [3]	Special Property Taxes: Special Assessments
2004	652,667,321	555,928,867	30,483,151	9,253,881	57,001,422
2005	688,732,379	586,126,742	31,938,951	9,638,152	61,028,534
2006	733,392,572	627,445,014	32,344,362	10,269,176	63,334,020
2007	785,528,430	673,473,530	32,954,091	10,822,166	68,278,644
2008	824,964,437	708,732,419	31,808,319	11,433,098	72,990,601

(1) Includes tax increments.
(2) Includes taxes on railroad property; electric, gas and heating property (except cooperative and coal conversion); and pipeline property.
(3) Includes taxes from mobile homes, rural electric cooperatives, banks and building and loan associations, woodlands, and game management areas.

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report." Transmission line taxes are collected by the State Tax Commissioner and are not included above.

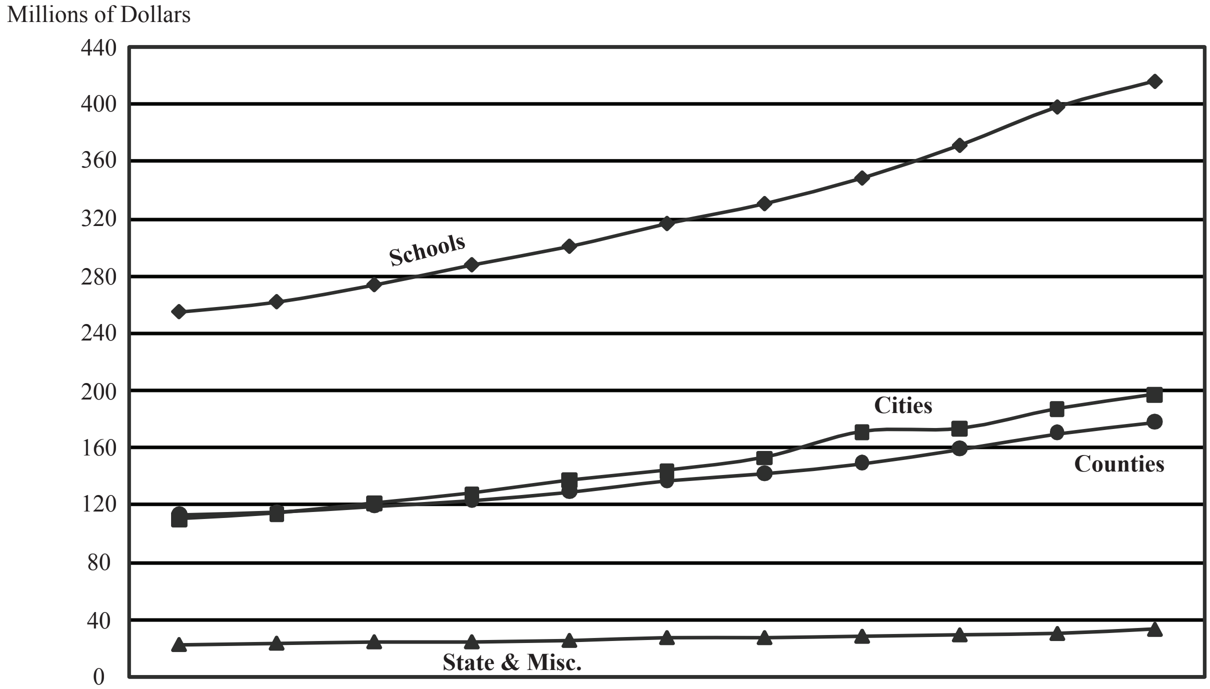
North Dakota Property Tax System



All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax. The other element of the property tax is the amount of revenue that needs to be raised.

General and Special Property Taxes by Taxing Districts
Payable in 1998 - 2008

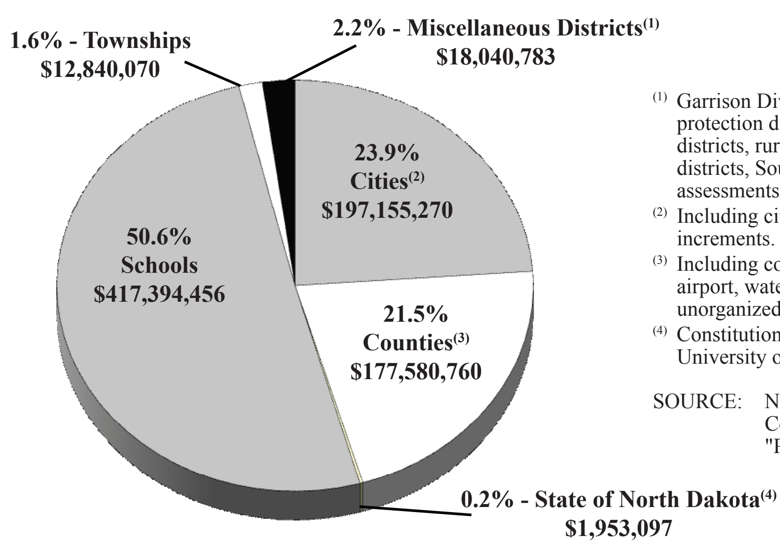


Year Payable	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Schools	255	262	274	288	301	317	331	349	372	399	417
Cities	110	114	121	128	137	144	153	171	173	187	197
Counties	113	115	119	123	129	137	142	149	159	170	178
State & Misc.	22	23	24	24	25	27	27	28	29	30	33

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

Percent of Property Taxes by Taxing District
Levied in 2007 - Payable in 2008

GRAND TOTAL - $824,964,436



(1) Garrison Diversion Conservancy District, rural fire protection districts, hospital district, soil conservation districts, rural ambulance districts, recreation service districts, Southwest Water Authority and all special assessments for rural districts.

(2) Including city park districts, special assessments, and tax increments.

(3) Including county park districts, county library, county airport, water management districts, vector control, unorganized townships and board of county parks.

(4) Constitutional one mill levy for medical center at the University of North Dakota.

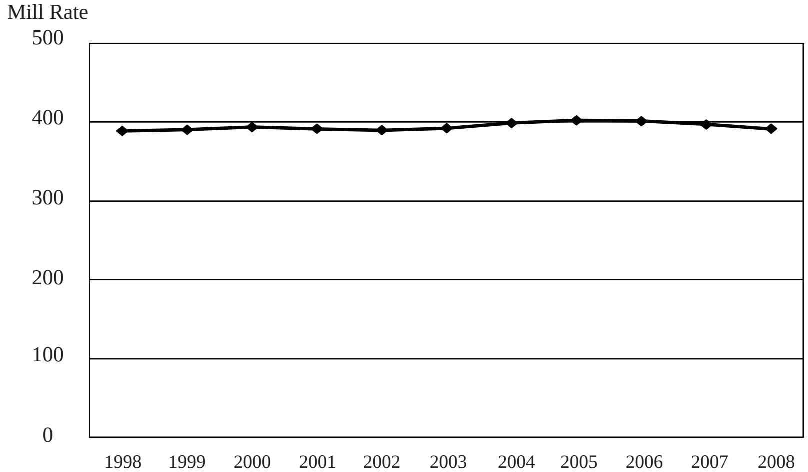
SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

General Property Taxes by County - Payable in 2004-2008

County	2004 Total Ad Valorem Property Taxes	Percent Change	2005 Total Ad Valorem Property Taxes	Percent Change	2006 Total Ad Valorem Property Taxes	Percent Change	2007 Total Ad Valorem Property Taxes	Percent Change	2008 Total Ad Valorem Property Taxes	Percent Change
Adams	2,593,335	1.2	2,734,585	5.4	2,849,899	4.2	2,872,219	0.8	2,881,080	0.3
Barnes	11,804,754	8.4	12,136,002	2.8	13,006,449	7.2	13,988,767	7.6	13,815,659	-1.2
Benson	3,998,165	1	4,037,188	1	4,207,168	4.2	4,489,324	6.7	4,671,291	4.1
Billings	672,161	8.5	695,602	3.5	708,361	1.8	749,987	5.9	673,348	-10.2
Bottineau	6,998,204	5.2	7,314,910	4.5	7,733,987	5.7	8,164,022	5.6	8,497,958	4.1
Bowman	2,055,826	-12.7	2,262,577	10	2,410,615	5.6	2,608,784	8.2	3,064,359	17.5
Burke	2,437,398	9.5	2,469,023	1.3	2,543,429	3	2,625,609	3.2	2,664,482	1.5
Burleigh	66,114,984	4.4	70,397,362	6.5	75,189,184	6.8	82,183,660	9.3	86,440,051	5.2
Cass	134,352,710	6.9	146,680,991	9.2	160,111,503	9.2	173,786,741	8.5	185,184,307	6.6
Cavalier	6,134,509	2.8	6,267,022	2.2	6,295,726	4.6	6,899,948	9.6	7,079,996	2.6
Dickey	5,672,799	2.4	5,562,646	-1.9	6,035,845	8.5	6,420,789	6.4	6,614,973	3.0
Divide	2,798,728	4.6	2,821,071	0.8	2,869,787	1.7	2,920,948	1.8	2,797,213	-4.2
Dunn	3,887,738	2.8	4,059,219	4.4	4,163,603	2.6	4,213,242	1.2	4,257,953	1.1
Eddy	2,493,299	6.7	2,568,714	3	2,675,769	4.2	2,644,943	-1.2	2,729,578	3.2
Emmons	3,964,980	4.9	4,060,378	2.4	4,278,121	5.4	4,430,847	3.6	4,696,460	6.0
Foster	3,936,415	-0.3	4,057,362	3.1	4,023,851	-0.8	4,220,290	4.9	4,354,791	3.2
Golden Valley	1,666,695	-3.8	1,705,977	2.4	1,740,429	2	1,796,314	3.2	1,922,637	7.0
Grand Forks	59,810,282	5.3	63,722,135	6.5	67,910,543	6.2	73,458,194	8.2	78,676,347	7.1
Grant	2,684,087	-1.4	2,757,056	2.7	2,839,060	3	3,012,447	6.1	3,160,288	4.9
Griggs	3,349,623	-1.5	3,368,117	0.6	3,481,082	3.4	3,694,244	6.1	3,749,729	1.5
Hettinger	2,755,938	2.4	2,944,898	6.9	3,045,246	3.4	3,270,755	7.4	3,505,884	7.2
Kidder	2,946,209	8.5	3,133,865	6.4	3,246,844	3.6	3,378,315	4.0	3,213,929	-4.9
LaMoure	4,687,088	6.4	5,178,623	10.5	5,459,978	5.4	5,758,371	5.5	5,840,213	1.4
Logan	2,062,281	2	2,039,302	-1.1	2,087,612	2.4	2,231,891	6.9	2,396,395	7.4
McHenry	5,204,674	6	5,504,780	5.8	5,875,339	6.7	6,380,010	8.6	6,735,314	5.6
McIntosh	3,016,185	3.6	3,094,297	2.6	3,225,455	4.2	3,323,598	3.0	3,528,970	6.2
McKenzie	3,555,472	3.5	3,663,983	3.1	3,750,757	2.4	3,913,769	4.3	3,808,607	-2.7
McLean	6,464,448	9.2	6,733,947	4.2	7,012,645	4.1	7,549,468	7.7	7,922,664	4.9
Mercer	6,088,203	3.5	6,179,492	1.5	6,556,798	6.1	6,815,946	4.0	6,992,218	2.6
Morton	22,778,415	7.6	24,265,120	6.5	27,069,645	11.6	28,061,273	3.7	29,505,772	5.1
Mountrail	5,133,848	-0.4	5,169,726	0.7	5,477,741	6	6,054,008	10.5	6,210,285	2.6
Nelson	4,235,371	1.4	4,264,052	0.7	4,364,556	2.4	4,375,901	0.3	4,414,113	0.9
Oliver	1,490,833	1.5	1,533,527	2.9	1,670,890	9	1,791,381	7.2	2,100,146	17.2
Pembina	9,824,330	-0.9	9,903,240	0.8	10,212,016	3.1	10,637,304	4.2	10,955,808	3.0
Pierce	4,758,652	3.9	4,824,718	1.4	4,902,987	1.6	5,043,876	2.9	5,038,897	-0.1
Ramsey	9,637,229	3	10,338,870	7.3	10,893,268	5.4	11,508,222	5.6	11,827,297	2.8
Ransom	6,206,508	3.5	6,341,653	2.2	6,607,588	4.2	6,753,955	2.2	6,860,789	1.6
Renville	2,903,250	4.1	3,052,269	5.1	2,970,044	-2.7	3,087,512	4.0	3,277,035	6.1
Richland	18,802,477	2.6	19,368,866	3	19,969,815	3.1	20,734,879	3.8	21,490,744	3.6
Rolette	3,491,704	-0.7	3,577,888	2.5	3,728,001	4.2	3,791,782	1.7	3,868,329	2.0
Sargent	5,455,585	4.8	5,620,577	3	6,040,508	7.5	6,458,903	6.9	6,581,767	1.9
Sheridan	1,882,775	4.5	1,968,628	4.6	2,056,936	4.5	2,103,464	2.3	2,204,370	4.8
Sioux	734,520	10.8	765,886	4.3	678,900	-11.4	759,173	11.8	793,684	4.5
Slope	1,067,638	5.4	1,095,729	2.6	1,123,248	2.5	1,014,570	-9.7	1,080,828	6.5
Stark	15,085,650	5.4	16,242,993	7.7	17,207,491	5.9	18,709,133	8.7	20,127,540	7.6
Steele	3,588,789	0.8	3,595,623	0.2	3,814,357	6.1	3,995,194	4.7	4,171,407	4.4
Stutsman	19,396,865	3.9	20,090,708	3.6	21,283,299	5.9	22,437,840	5.4	23,000,545	2.5
Towner	3,812,907	5.7	3,728,715	-2.2	3,719,070	-0.3	3,819,700	2.7	4,054,042	6.1
Traill	8,804,445	3.1	9,125,117	3.6	9,977,250	9.3	10,684,721	7.1	11,172,238	4.6
Walsh	12,189,558	0.8	12,099,288	-0.7	12,382,781	2.3	13,078,199	5.6	13,108,348	0.2
Ward	39,888,318	3	41,693,206	4.5	46,080,122	10.5	50,167,348	8.9	52,354,626	4.4
Wells	5,767,738	7.4	5,629,904	-2.4	5,762,976	2.4	5,933,766	3.0	6,201,699	4.5
Williams	15,267,423	2.8	15,618,268	2.3	16,460,801	5.4	17,622,072	7.1	18,263,736	3.6
Total	586,412,017	4.6	618,065,693	5.4	659,789,374	6.8	706,427,621		740,540,738	

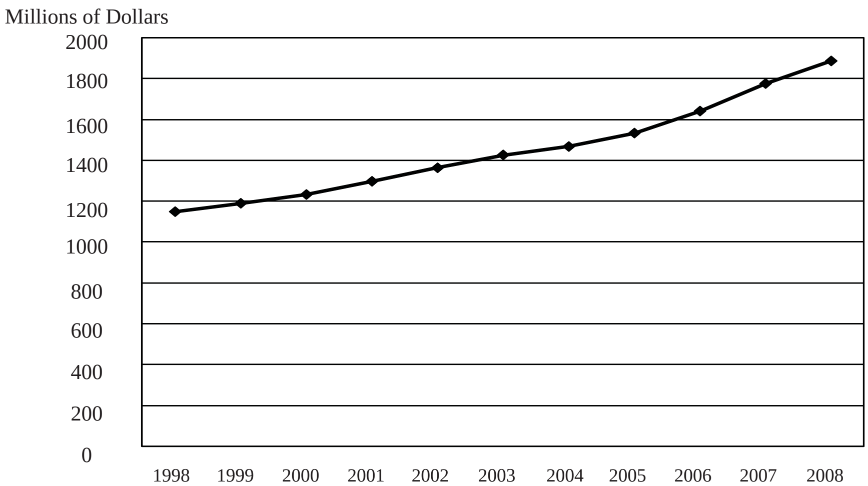
SOURCE: North Dakota Office of State Tax Commissioner. Property Tax Division, "Property Tax Statistical Report."

Statewide Average Mill Rates - For Taxes Payable in 1998-2008



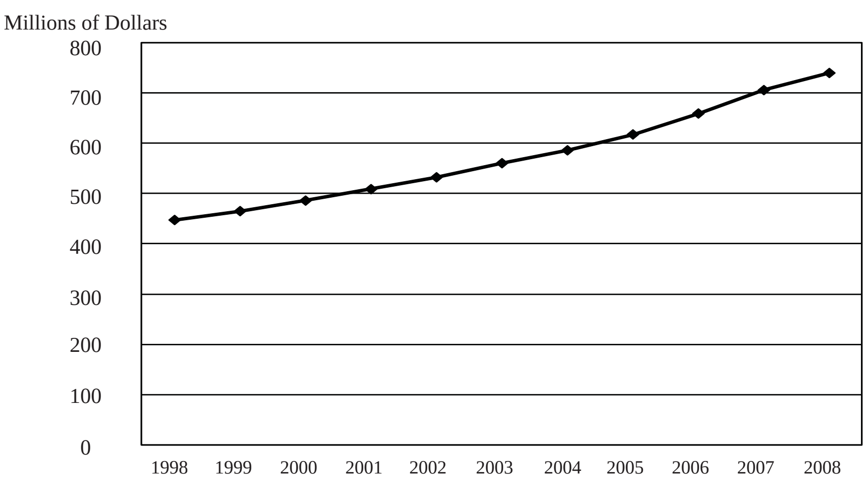
Year Payable	Average Mill Rate
1998	389.32
1999	390.74
2000	394.10
2001	392.07
2002	390.33
2003	392.78
2004	399.24
2005	402.70
2006	401.66
2007	397.41
2008	392.15

Statewide Property Taxable Valuations - For Taxes Payable in 1998-2008



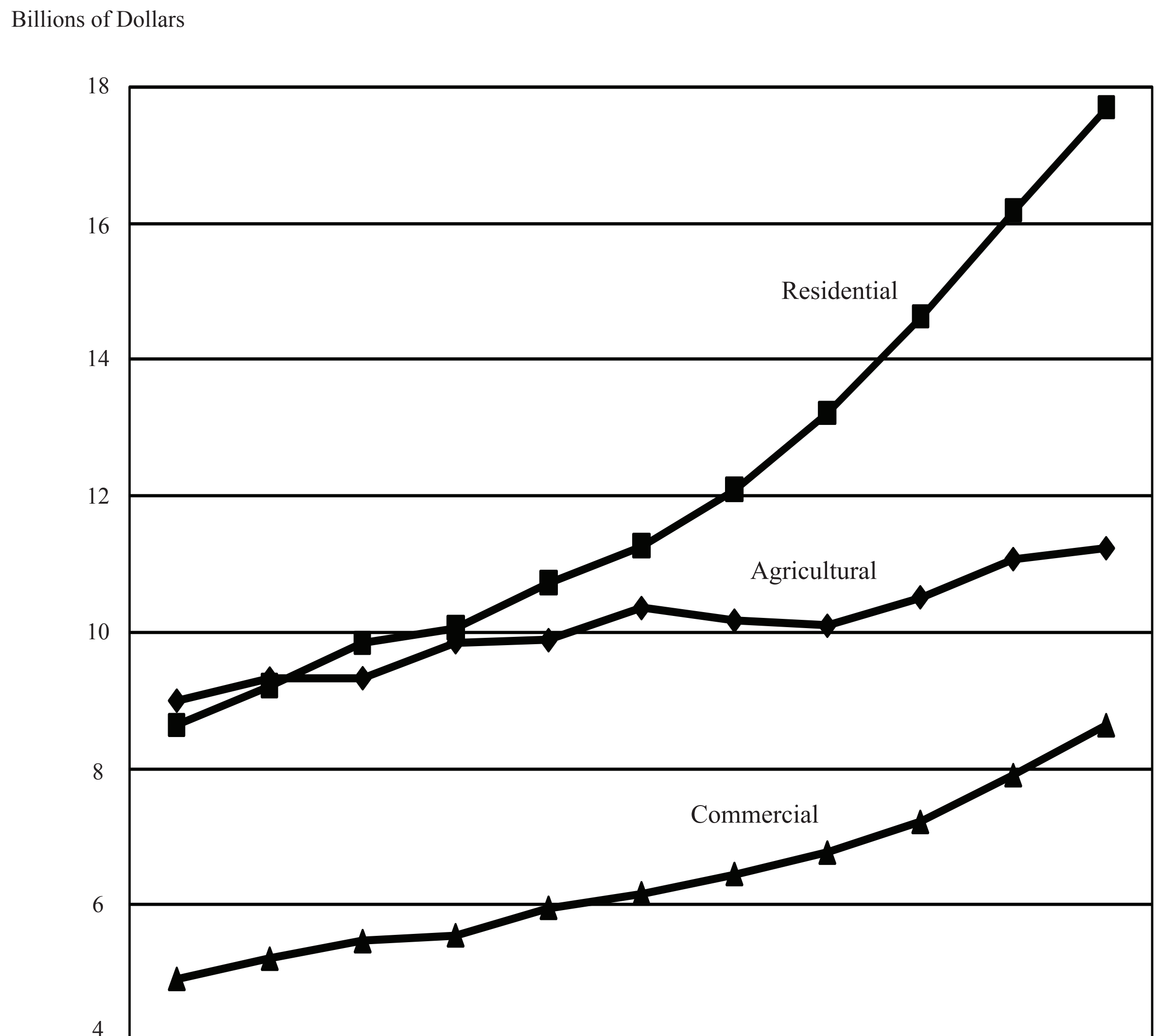
Year Payable	Taxable Value
1998	1,149,656,119
1999	1,190,563,319
2000	1,233,682,014
2001	1,298,333,166
2002	1,364,577,713
2003	1,427,642,584
2004	1,468,874,722
2005	1,534,816,263
2006	1,642,672,714
2007	1,777,593,059
2008	1,888,388,390

Ad Valorem Property Taxes Levied - For Taxes Payable in 1998-2008



Year Payable	Taxes
1998	447,582,274
1999	465,203,396
2000	486,194,264
2001	509,032,721
2002	532,629,675
2003	560,751,909
2004	586,412,017
2005	618,065,693
2006	659,789,374
2007	706,427,621
2008	740,540,738

True and Full Value by Classification
For Taxes Payable in 1998 - 2008



Year Payable	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agricultural	8.998	9.324	9.329	9.860	9.890	10.364	10.178	10.103	10.523	11.086	11.247
Residential	8.645	9.223	9.840	10.069	10.728	11.273	12.099	13.221	14.631	16.197	17.701
Commercial	4.928	5.225	5.483	5.569	5.973	6.1850	6.470	6.784	7.235	7.921	8.655

Explanation of Terms and Trends

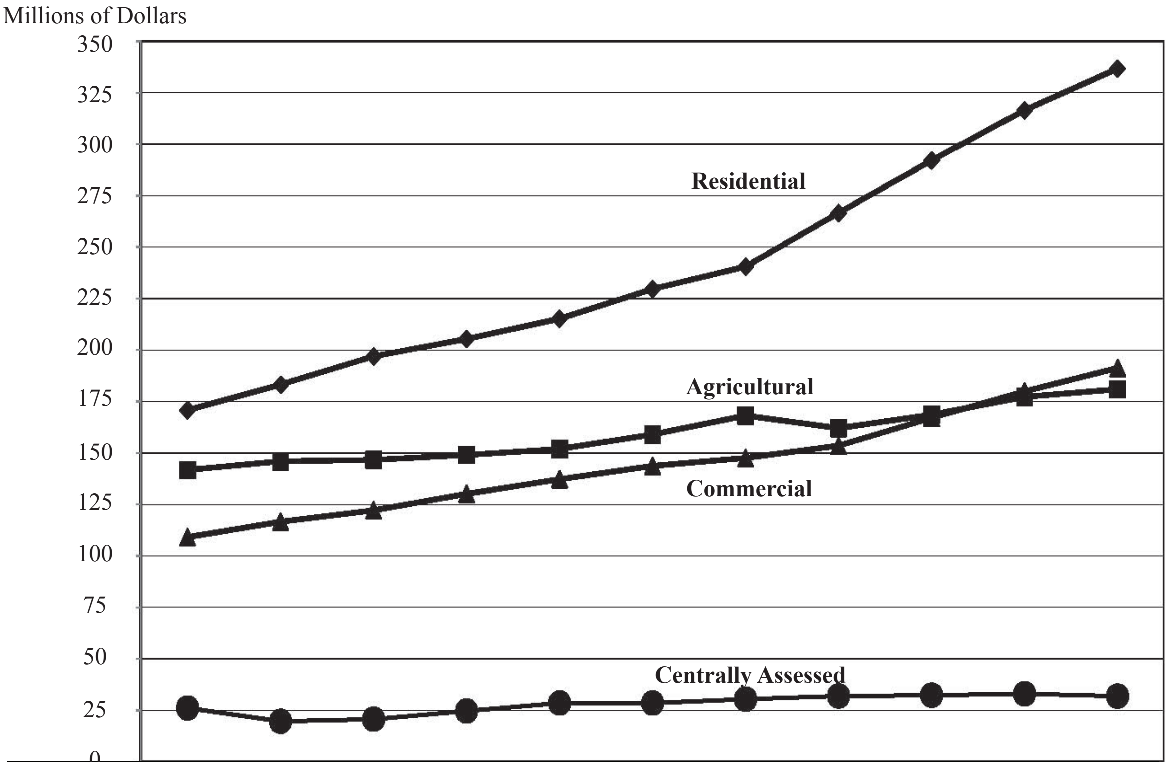
True and full value. For residential and commercial property "true and full value" is the local assessor's estimate of the market value of the property. For agricultural property, true and full value is based on agricultural production and is typically less than its market value or selling price.

Effective Rates. An annual sales ratio study measures how close "true and full values" are to actual selling prices for property. The results may be used to calculate an effective tax rate for each classification. The effective rate is the total tax divided by the total indicated selling price (see table on page 94).

Trends. During the first six years of the past 11 years, mill rates were fluctuating and total taxable valuations were increasing (see preceding page). For the next three years, the statewide average mill rate increased while values increased. For the last three years, mill rates have been decreasing. The table above shows how the total true and full value for each classification has been increasing at an accelerating pace. Agriculture values tend to go up when production and commodity prices are increasing. Other property values tend to go up when employment is high. Another factor is that total values of residential and commercial property include a rising number of properties. The number of acres classified as agricultural land is down slightly.

Charts in this section show statewide data. Please note that values and taxes for individual properties will depend on local economic conditions and other factors. The table above includes values for taxes payable in 2008.

Ad Valorem Property Taxes by Classification
Payable in 1998- 2008



Year Payable	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Residential	170.7	183.1	196.9	205.3	215.1	229.6	240.4	266.5	292.0	316.4	336.6
Agricultural	141.7	145.9	146.6	149.0	151.9	158.9	168.1	162.0	168.5	177.2	180.9
Commercial	109.1	116.6	122.1	130.1	137.2	143.7	147.5	153.5	167.0	179.8	191.2
Central	26.1	19.6	20.6	24.6	28.5	28.5	30.4	31.9	32.3	33.0	31.8
Total	447.6	465.2	486.2	509.0	532.6	560.7	586.4	613.9	659.8	706.4	740.5

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Tax Statistical Report."

Effective Rates by Classification
Payable in 2006, 2007, and 2008

Property Classification	Effective Rate 2006	2007*	2008*
Residential	1.81%	1.79%	1.77%
Agricultural	0.94%	0.81%	0.74%
Commercial	2.17%	2.26%	2.20%
Centrally Assessed	1.64%	1.68%	1.64%
Total	**1.51%**	**1.43%**	**1.37%**

*The effective rate on centrally assessed wind turbine electric generation units is overstated because of their reduced taxable value percentage. That causes the effective rate on the centrally assessed property to be slightly understated.

Ad Valorem Property Taxes Percent of Total by Classification
Payable in 2006, 2007, and 2008

	2006	2007	2008
Residential	44.3%	44.8%	45.5%
Agricultural	25.5%	25.0%	24.4%
Commercial	25.3%	25.5%	25.8%
Centrally Assessed	4.9%	4.7%	4.3%

STATE COMPARISONS

North Dakota's property taxes are relatively moderate compared to those in other states, whether measured per capita or per $1,000 of personal income. In recent years, property values have increased significantly resulting in a corresponding increase in property tax assessments. In response, many states have implemented various property tax relief initiatives in an effort to reduce the property tax burden. The tables compare the property taxes on equally valued homes in similar size North Dakota cities as well as from neighboring states. Neighboring states' property taxes on similarly valued residences appear less than North Dakota's because those states provide a homestead credit for all owner-occupied residential property. North Dakota's homestead credit is available only to elderly and disabled persons with limited income.

Rankings (as shown on the following page) based on collections offer insight into overall tax levels. However, further analysis is needed to see the details of how state tax systems differ. Property taxes may vary by property classification and different types of property may be taxed or excluded. Some states, such as Wyoming, use the property tax to tax mineral wealth while states like North Dakota levy separate severance taxes. In Alaska, because of its oil reserves fund, residents receive annual payments of about $1,000 per person.

Property Taxes on an Owner Occupied Home in North Dakota
Payable in 2008

$70,000 Home

City	Tax Amount*
Bowman	$1,018
Carrington	$1,308
Grafton	$1,533
Kenmare	$1,092
Lisbon	$1,481
Rugby	$1,306
Washburn	$953

$100,000 Home

City	Tax Amount*
Bismarck	$1,752
Devils Lake	$2,263
Dickinson	$1,905
Fargo	$1,962
Grand Forks	$2,072
Jamestown	$2,215
Mandan	$2,158
Minot	$1,795
Valley City	$1,988
Wahpeton	$2,062
West Fargo	$1,911
Williston	$1,957

* Calculations assume taxes are paid by February 15, allowing the taxpayer a 5% discount.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division, August 2008.

Property Taxes on a $100,000 Owner Occupied Home in Neighboring States
Payable in 2008

SOUTH DAKOTA[1]		MONTANA[2]		MINNESOTA[3]	
City	Tax Amount	City	Tax Amount	City	Tax Amount
Aberdeen	$ 1,687	Miles City	$ 2,200	Bemidji	$ 1,019
Rapid City	1,419	Great Falls	1,391	St. Cloud	883
Sioux Falls	1,789	Billings	1,230	Minneapolis	1,062

(1) Owner-occupied residences receive a 30% tax reduction.
(2) 34% homestead credit for all residential property
(3) After $282 homestead credit.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division

Per Capita State & Local Property Taxes 2006

Rank	State	Amount
1	New Jersey	$2,366
2	Connecticut	2,161
3	New Hampshire	2,113
4	District of Columbia	2,064
5	New York	1,888
6	Wyoming	1,883
7	Vermont	1,849
8	Rhode Island	1,784
9	Massachusetts	1,679
10	Maine	1,678
11	Illinois	1,521
12	Wisconsin	1,432
13	Alaska	1,419
14	Texas	1,359
15	Michigan	1,343
16	Indiana	1,325
17	Florida	1,263
18	Nebraska	1,259
19	Kentucky	1,198
20	Virginia	1,197
21	Kansas	1,179
22	Pennsylvania	1,143
23	Iowa	1,135
24	Montana	1,105
25	Ohio	1,098
26	Colorado	1,084
27	Washington	1,068
28	Maryland	1,061
29	Minnesota	1,027
30	California	1,018
31	**NORTH DAKOTA**	**991**
32	Oregon	983
33	Nevada	978
34	South Dakota	964
35	Georgia	937
36	South Carolina	898
37	Arizona	871
38	Missouri	848
39	Idaho	826
40	North Carolina	771
41	Hawaii	766
42	Mississippi	711
43	Utah	710
44	Tennessee	670
45	Delaware	614
46	West Virginia	584
47	Louisiana	575
48	Oklahoma	498
49	New Mexico	484
50	Arkansas	466
51	Alabama	416
	US	$1,084

SOURCE: US Census Bureau - State & Local Government Finances by level of Government & by State 2005-06, last revised July 1, 2008, http://www.census.gov/govs/www/estimate06.html

Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income, March 2006, www.bea.gov/bea/regional/spi/default.cfm?satable=summary

Per $1,000 of Personal Income State & Local Property Taxes 2006

Rank	State	Amount
1	New Hampshire	$50.90
2	Vermont	50.41
3	Maine	49.77
4	New Jersey	48.09
5	Rhode Island	45.22
6	Wyoming	43.58
7	Connecticut	39.92
8	New York	39.85
9	Wisconsin	39.74
10	Indiana	39.42
11	Kentucky	38.51
12	Michigan	38.27
13	Illinois	37.73
14	Texas	36.55
15	Alaska	35.14
16	Nebraska	34.52
17	Massachusetts	34.21
18	Montana	34.06
19	District of Columbia	33.77
20	Florida	32.84
21	Iowa	32.41
22	Kansas	32.08
23	Ohio	31.50
24	Pennsylvania	29.47
25	South Carolina	28.97
26	Virginia	28.96
27	**NORTH DAKOTA**	**28.46**
28	South Dakota	28.42
29	Oregon	38.27
30	Georgia	28.01
31	Idaho	26.48
32	Washington	26.44
33	Colorado	26.41
34	Arizona	26.39
35	Minnesota	25.04
36	Mississippi	24.66
37	Missouri	24.66
38	California	24.50
39	Nevada	24.16
40	Maryland	23.06
41	North Carolina	22.92
42	Utah	22.75
43	Tennessee	20.14
44	West Virginia	19.79
45	Hawaii	19.51
46	Louisiana	16.55
47	Arkansas	15.49
48	New Mexico	15.39
49	Delaware	15.11
50	Oklahoma	14.59
51	Alabama	12.85
	US	$30.84

SOURCE: US Census Bureau - State & Local Government Finances by level of Government & by State 2005-06, last revised July 1, 2008, http://www.census.gov/govs/www/estimate06.html

Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income, March 2006, www.bea.gov/bea/regional/spi/default.cfm?satable=summary

SALES AND USE TAXES

CURRENT LAW

Sales, Use, and Gross Receipts Tax

Imposition and Rates

Sales Tax. North Dakota imposes a sales tax on the gross receipts of retailers. The tax is paid by the purchaser and collected by the retailer.

The sales tax is levied as follows:

- 1% rate on the gross receipts from retail sales of natural gas. Natural gas will be exempt beginning July 1, 2009.
- 3% rate on the gross receipts from retail sales of new mobile homes.
- 3% sales tax surcharge on each motor vehicle rental contract for a period of fewer than thirty (30) days, provided the gross vehicle weight of the motor vehicle is ten thousand pounds or less.
- 5% general rate on the gross receipts from retail sales of tangible personal property, communication services, magazines and other periodicals sold over the counter, cigarettes and tobacco products, and admission to recreation activities; from the rental of hotel, motel, and bed and breakfast accommodations for periods of less than 30 consecutive days; from the leasing of tangible personal property; and from the rental of motor vehicles for periods less than 30 days.

Use Tax. The purchase price of tangible personal property purchased outside of the state for storage, use or consumption within the state is subject to a use tax. In addition, tangible personal property not originally purchased for use in North Dakota is subject to a use tax based upon its fair market value at the time it was brought into the state. Credits are allowed for sales and use taxes paid to other states.

The use tax is collected by any retailer who maintains in this state, directly or indirectly, an office, distribution house, sales house, warehouse, or other place of business or has a sales representative operating in this state either permanently or temporarily.

Use tax is paid by contractors installing materials in real property, including real property owned by government and tax-exempt entities. North Dakota use tax is also paid by contractors buying materials in North Dakota and installing them in other states, unless the materials are exempt in the state where installed.

Use tax rates are the same as the sales tax rates listed.

Local Sales and Use Taxes. Cities or counties that have adopted home rule charters may levy sales and use taxes. North Dakota home rule statutes require the North Dakota Office of State Tax Commissioner to administer the local taxes. The state pays the revenue collected to the local governments on a monthly basis. Cities and counties with a local tax during the 2005-2007 biennium are listed on page 106.

Farm Machinery Gross Receipts Tax. North Dakota imposes a 3% gross receipts tax on retail sales of new farm machinery and new irrigation equipment used exclusively for agricultural purposes. A person that receives new farm machinery or new irrigation equipment for storage use, or consumption in North Dakota is also subject to the gross receipts tax. Credits are allowed for similar taxes paid to other states. Used farm machinery and used irrigation equipment used exclusively for agricultural purposes are exempt from sales, use and gross receipts taxes. Farm machinery is not subject to sales tax.

Alcoholic Beverage Gross Receipts Tax. North Dakota imposes a 7% gross receipts tax on retail sales of alcoholic beverages sold for consumption either on or off the premises. A person that receives alcoholic beverages for storage use, or consumption in North Dakota is also subject to the gross receipts tax. Credits are allowed for similar taxes paid to other states. Alcholic beverages are not subject to sales tax.

Exemptions

Receipts from the sale of tangible personal property for the purpose of “resale” or “processing” by the purchaser are not subject to the sales, use, or gross receipts tax. In addition, receipts from the sale of the following items are exempt from sales, use, and gross receipts tax:

- Food and food ingredients for human consumption except for prepared food for immediate consumption, candy, and soft drinks.
- Food used as samples in grocery stores.

- Commercial fertilizers, fungicides, herbicides, adjuvants, feeds, and seeds used for agricultural purposes.
- Agricultural by-products used to produce steam or electricity.
- Interstate communications (telephone calls, etc.).
- Hotel or motel rooms rented and used by the same individual for 30 or more consecutive days.
- Machinery and equipment that a new or expanding plant uses primarily for manufacturing, processing or recycling. The company must get pre-approval or pay the tax and apply for a refund.
- Materials used to construct an agricultural processing plant. The company must get pre-approval or pay the tax and apply for a refund.
- Computer and telecommunications equipment that is an integral part of a new or expanding primary sector business other than a manufacturer or recycler. The company must be certified as a primary sector business by the Department of Commerce and get pre-approval for the exemption or pay the tax and apply for a refund.
- Production equipment and other tangible personal property used to construct certain defined electrical power generating plants. To qualify, plants must produce a specified amount of electricity and use certain power sources (coal, wind, and other sources). Plant operators must get pre-approval for the exemption or pay the tax and apply for a refund.
- Production equipment and other tangible personal property used to repower an existing power plant. Repowering means an investment of more than two hundred million dollars or one million dollars per megawatt of installed nameplate capacity, whichever is less. Environmental upgrade equipment used in power plants, repowering existing power plants, oil refineries, or gas processing plants. Plant operators must get pre-approval for the exemption or pay the tax and apply for a refund.
- Tangible personal property used in compressing, processing, gathering, or refining gas recovered from an oil or gas well or used to construct or expand a gas processing facility. Plant operators must get pre-approval for the exemption or pay the tax and apply for a refund.
- Tangible personal property used to construct or expand an oil refinery that has a capacity to process at least five thousand barrels of oil a day. Plant operators must get pre-approval for the exemption or pay the tax and apply for a refund.
- Used mobile homes.
- Used farm machinery, used irrigation equipment, and new and used farm machinery repair parts.
- Newspapers.
- Newsprint and printer's ink sold to publishers.
- Magazine subscriptions.
- Electricity.
- Water.
- Steam used to process agricultural products.
- Flight simulators or mechanical equipment used with a flight simulator.
- Money.
- Lottery tickets and bingo cards.
- Admissions to, or sales made at, an annual church supper or bazaar held in a publicly-owned building.
- Admission tickets to state or local fairs.
- Performances of community non-profit music or dramatic arts organizations (if proceeds used for charitable purposes).
- Film rentals if admissions to view the film are subject to sales tax.
- Prescription drugs.
- Artificial medical devices.
- Mobility-enhancing equipment for use by physically disabled persons.
- Oxygen and anesthesia gases for medical purposes.
- Diabetic and bladder dysfunction supplies.
- Ostomy devices and supplies.
- Items sold to federal chartered credit unions.
- Items subject to other taxes such as coal, beneficiated coal, aircraft, motor vehicles, gasoline, and combustible fuels.
- Items sold to private non-profit schools.
- Bibles, hymnals, textbooks, prayerbooks sold to nonprofit religious organizations.
- Items sold to governmental agencies, including public schools.
- Items sold to residents of Montana if the total sales price exceeds $50.
- Items sold to residents of Canada if purchase is over $25 (must apply for a refund of tax paid).
- Items sold to a Commerce Authority for use in the Authority's infrastructure.
- Items sold on an Indian reservation to an enrolled Native American or to the tribal government.
- Goods sold to a hospital or skilled nursing facility, basic care or intermediate care facility, assisted living facility, or emergency medical service provider.
- Items sold at an auction unless the auctioneer is selling retail inventory or consigned goods owned by an undisclosed principal.
- Items sold to a charitable organization to be awarded as a prize in a raffle if the winner is subject to tax upon receipt.
- CO_2 used for enhanced oil recovery.
- Equipment used to sell biodiesel fuel.
- Hydrogen used to power internal combustion engines or fuel cells.
- Equipment used to produce and store hydrogen.
- Precious metal bullion with purity not less than .999.

Administration

Every business making taxable retail sales and every business accruing a use tax liability must obtain a North Dakota sales and use tax permit from the North Dakota Office of State Tax Commissioner. A consolidated form is available to register for a sales and use tax permit, income tax withholding, unemployment insurance and workers compensation.

Most businesses pay sales, use, and gross receipts taxes on a quarterly basis. However, businesses reporting taxable sales and purchases of $333,000 or more during the previous calendar year must file monthly returns. Businesses required to file and pay monthly returns are allowed to deduct and retain a compensation allowance of 1½% of the tax due, up to a maximum of $85 per month if the returns are filed on time.

Whether the tax is paid monthly or quarterly, the tax payment and a return reporting all sales and purchases are due the last day of the month following the end of the reporting period. In odd-numbered years, monthly returns for May are due June 22.

Distribution of Revenue

Revenue collected from the sales, use, farm machinery gross receipts, alcoholic beverage gross receipts, and motor vehicle excise taxes is divided between the State General Fund and the State Aid Distribution Fund. The formula to determine the State Aid Distribution Fund portion is designed to keep the amount constant regardless of tax rate changes. The formula is:

40% (1% ÷ by general sales tax rate) (net collections)

This formula to determine the State Aid Distribution Fund currently yields 8% of the net collections. The distribution of the State Aid Distribution Fund portion is 53.7% to revenue sharing for counties and 46.3% for cities.

Motor Vehicle Excise Tax

Imposition and Rates

The purchase price of any motor vehicle purchased or acquired, either within or outside of North Dakota, for use on the streets or highways of this state is subject to a motor vehicle excise tax if the vehicle is required to be registered in North Dakota.

The motor vehicle excise tax is 5% of the purchase price (the sale price less any trade-in amount). If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value. When a motor vehicle weighing less than ten thousand pounds is leased for at least one year, the motor vehicle excise tax is 5% of the lease consideration. All other leased vehicles are taxed at 5% of the purchase price. North Dakota excise tax is due on the fair market value of the motor vehicle when it enters North Dakota to be registered for use. North Dakota allows credit for any excise tax paid on a motor vehicle in another state if that state allows a reciprocal credit.

The motor vehicle excise tax is in addition to motor vehicle registration fees for license plates. The registration fees are paid annually to the Department of Transportation.

Exemptions

A motor vehicle is exempt from the motor vehicle excise tax if the vehicle is:

- A gift between a husband and wife, parent and child, or brother and sister.
- Inherited.
- A motor carrier vehicle.
- Purchased for resale by a licensed dealer.
- Purchased by a disabled veteran.
- Purchased or leased by the federal government, the State of North Dakota, or a political subdivision of the state.
- A bus purchased by a nonprofit senior citizens' or handicapped persons' organization.
- Specially equipped for a disabled person.
- Owned by an individual and transferred to a partnership or corporation.
- Transferred from a partnership without consideration to one of the partners when the partnership dissolves.
- Acquired by a private nonprofit school for the transportation of students.
- Purchased by a charitable organization to be awarded as a prize in a raffle and the vehicle will be subject to tax when registered.
- Purchased by the state lottery to be awarded as a prize.
- Transferred between joint tenants in whose names the vehicle was previously titled if the vehicle is transferred without monetary consideration.
- Owned by a person who has a change of name due to marriage, adoption, or court order.
- Transferred without consideration to or from a person within 30 days before the person enters into or is discharged from the armed services of the United States or while the person is serving in the armed forces of the United States.

- Subject to a lien change but only if the registered owner has not changed.
- Manufactured by persons for their own use.
- Transferred from a corporation to one of the stockholders when a corporation is dissolved.
- Acquired by a nonprofit county or local historical society that is exempt from federal income tax.
- Transferred from a revocable living trust to the spouse, child, or sibling of the trustor.
- An ambulance purchased for use by emergency medical service operators.
- Purchased by an enrolled Native American that resides on a North Dakota reservation.

Administration

The motor vehicle excise tax is collected by the Department of Transportation.

Distribution of Revenue

Motor vehicle excise tax revenue is credited to the general fund.

Music And Dramatico-Musical Composition Performing Rights Tax

A 5% tax is levied on the gross receipts from all sales, licenses and other dispositions of performing rights in music or dramatico-musical compositions. The tax is administered by the North Dakota Office of State Tax Commissioner and revenue from the tax is placed in the State General Fund.

Provider Assessment for Intermediate Care

A quarterly assessment is billed to each licensed North Dakota intermediate care facility for the mentally retarded (ICFMR). The assessment is charged for each licensed bed at the facility on the first day of each calendar quarter and is payable by the last day of each calendar quarter. The assessment amount, which is effective each July 1, is calculated by the Department of Human Services and may not be greater than the following:

[1½% times aggregate annual gross revenues of all ICFMR as of December 31] ÷
Number of licensed beds as of December 31

The Provider Assessment is administered by the Office of State Tax Commissioner and is deposited in the Provider Assessment Fund. The quarterly assessment rate as of July 1, 2008 was $1,506 for each licensed bed.

City Lodging Restaurant and Motor Vehicle Rental Taxes

Imposition and Rates

The governing body of any city may, by ordinance, impose a city tax, not to exceed 2%, upon the receipts from leasing or renting hotel and motel accommodations. Revenue from the tax must be deposited in a city visitors promotion fund to be used for tourism promotion. These funds may not be used for capital construction.

A city may impose an additional 1% tax on lodging accommodations and on receipts from restaurant sales of prepared food or beverages. Revenue from this tax must be deposited in the city visitors promotion capital construction fund.

A city may also impose by ordinance a tax, not to exceed 1%, on the gross receipts of retailers on the rental of motor vehicles for fewer than thirty days if the motor vehicle is either delivered to a renter at an airport or delivered to a renter who was picked up at an airport. Revenue from the tax must be deposited in a city visitors promotion fund.

Administration

The North Dakota Office of State Tax Commissioner administers and collects all city motor vehicle rental taxes and most city lodging taxes and remits the revenue to the cities on a monthly basis. An administrative fee of 3% of collections is deposited in the State General Fund. Fargo, Grand Forks, Minot and Valley City administer their lodging taxes themselves.

Aircraft Excise Tax

Imposition and Rates

A 5% tax is imposed on the purchase price or market value of aircraft registered in North Dakota. The tax applies whether the aircraft is purchased in North Dakota or outside the state. If the aircraft is purchased for lease or rental, the tax may be imposed on the lease or rental cost of the aircraft.

On aircraft designed exclusively for aerial applications of agricultural fertilizers, pesticides and other agricultural materials, a reduced tax rate of 3% applies to the purchase price or rental cost of the aircraft.

Exemptions

An aircraft is exempt from the aircraft excise tax if the aircraft is:

- A gift between a husband and wife, parent and child, or brother and sister.
- Inherited.
- Purchased for resale by a licensed dealer.
- Purchased by a disabled veteran.
- Purchased or leased by the federal government, the State of North Dakota, or a political subdivision of the state.
- Owned by an individual and transferred to a partnership or corporation.
- Transferred from a partnership without consideration to one of the partners when the partnership dissolves.
- Acquired by a private nonprofit school.
- Transferred between joint tenants in whose names the aircraft was previously titled if the aircraft is transferred without monetary consideration.
- Owned by a person who has a change of name due to marriage, adoption, or court order.
- Subject to a lien change but only if the registered owner has not changed.
- Transferred from a corporation to one of the stockholders when a corporation is dissolved.
- An air ambulance purchased for use by emergency medical service operators.

Administration

The tax is paid by the purchaser to the Director of Aeronautics when the aircraft is acquired. The purchaser is required to submit the tax with an "aircraft purchaser's certificate" showing a description of the aircraft, the names and addresses of the buyers and sellers, and the full purchase price of the aircraft.

Distribution of Revenue

Revenue from the tax is deposited in the Aeronautics Commission Special Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1935 Session.
- The first general sales tax in North Dakota was enacted at a rate of 2%. The tax base generally consisted of all sales to consumers of personal property; sales or service of gas, electricity, water and communication; and sales of tickets to places of amusement.

1939 Session.
- A 2% general use tax was enacted.

1963 Session.
- The sales and use tax rate increased from 2% to 2¼%.

1965 Referred Measure.
- The sales tax law was referred and disapproved. Consequently, during the period July 1, 1965 to April 1, 1967 use tax was collected in place of the disapproved sales tax.

1967 Session.
- New sales and use tax laws were enacted imposing a 3% tax on the same sales transactions that were in effect through the 1963 sales tax law.
- The legislature enacted a separate 3% motor vehicle excise tax.

1969 Session.
- Sales tax, use tax, and motor vehicle excise tax rates were increased from 3% to 4%. The increase was used to replace revenue lost to local governments by the repeal of the personal property tax.
- The sales tax base was broadened to include tobacco products, alcoholic beverages, and oleomargarine.

1973 Session.
- Food purchased for off premises consumption was exempted from the sales and use tax.

1975 Session.
- Exemptions were added for sales of artificial devices for handicapped persons, coal, sales to nursing homes and intermediate care facilities, and the sales of certain religious books to nonprofit religious organizations.

1976 Initiated Measure.
- An initiated measure reduced the sales and use tax rate and the motor vehicle excise tax rate from 4% to 3%, reduced the rate on farm machinery and irrigation equipment from 4% to 2%, and eliminated the tax on electricity.

1977 Session.
- The legislature authorized home rule cities to contract with the Tax Commissioner to collect city sales and use taxes.

1979 Session.
- Exemptions to the sales and use tax law were added for sales to hospitals and for ostomy devices and supplies.
- The exemption for devices to aid the handicapped was expanded.

1981 Session.

- The sales and use tax on water, used mobile homes, and magazine subscriptions was eliminated.
- The tax rate on new mobile homes was reduced from 3% to 2%.
- Cities were permitted to levy a 2% city lodging tax.

1983 Session.

- The general sales and use tax rate and the motor vehicle excise tax rate were increased from 3% to 4% and the rate for farm machinery, irrigation equipment, and new mobile homes was increased from 2% to 3%.
- The legislature increased the rate for alcoholic beverages from 3% to 5%.
- The requirements for remittance of sales and use tax were changed from a quarterly basis to a monthly basis for businesses with taxable sales and purchases greater than $333,000 in the preceding calendar year. Retailers required to file on a monthly basis were given a deduction for administrative expenses.
- The tax on aircraft sales was changed from the sales tax to a separate aircraft excise tax.

1985 Session.

- Exemptions for sales of candy, pop and chewing gum were repealed.
- The legislature authorized home rule counties to contract with the Tax Commissioner to collect county sales and use taxes.

1986 Special Session.

- The general sales and use tax rate and the motor vehicle excise tax rate was increased from 4% to 5%.
- The rate on farm machinery repair parts was lowered from 4% to 3%, and the rate on alcoholic beverages was increased from 5% to 6%.
- No change was made in the 3% rate for farm machinery, irrigation equipment, and new mobile homes.

1987 Session.

- The legislature increased the general sales and use tax rate and the motor vehicle excise tax rate from 5% to 5½%; the rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes from 3% to 3½%; and the rate on alcoholic beverages from 6% to 6½%.
- The legislature added cable TV services to the tax base. [However, in a 1988 referred measure, the cable TV provision was rejected and did not take effect.]
- Exemptions were created for flight simulators, annual church suppers and bazaars, and adjuvants used with farm chemicals. The legislature required use tax collection by those who solicit sales by mail or other communication systems.
- Effective July 1, 1989 a portion of the sales, use, and motor vehicle excise tax collections was allocated to the State Aid Distribution Fund to finance revenue sharing and personal property tax replacement.
- Cities were granted authority to impose a 1% lodging and restaurant tax.

1989 Session.

- The general sales and use tax rate and the motor vehicle excise tax rate was increased from 5½% to 6%.
- The rate on farm machinery, irrigation equipment, farm machinery repair parts, and new mobile homes was increased from 3½% to 4%; and the rate on alcoholic beverages was increased from 6½% to 7%.
- The legislature created a new rate of 3% on machinery and equipment used in manufacturing or in processing agricultural products.
- The tax base was broadened to include bingo cards, coffee, tea, cocoa, and certain bottled water. State chartered credit unions lost the sales tax exemption on items purchased for their own use.
- The existing exemption for residents of Montana was modified and the exemption for residents of Canada was replaced with a refund provision.
- An exemption was created for prepared food given away as samples in a grocery store.
- A portion of sales, use and motor vehicle excise tax collections was allocated to the Capital Construction Fund. The legislature enacted a controlled substances tax.

1989 Referral Election.

- The general sales and use tax rate and the motor vehicle excise tax rate were reduced from 6% to 5%.
- The rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes was reduced from 4% to 3%.
- The rate on alcoholic beverages remained at 7%.

1991 Session.

- The legislature approved a gradual decrease in the rate on natural gas from 5% to 4% on January 1, 1993; to 3% on January 1, 1994; and to 2% on January 1, 1995.
- The 3% special rate for manufacturing equipment was changed to an exemption and an exemption was created for production equipment in coal-burning power plants.
- The legislature approved the Taxpayer Bill of Rights.
- The destination of aircraft excise tax revenue was changed from the State General Fund to the Aeronautics Commission Special Fund.
- A waste collection surcharge was imposed.

1993 Session.

- The Capital Construction Fund was repealed.
- The exemption for manufacturing machinery and equipment was clarified and expanded to include recycling machinery and equipment.
- Performances of community non-profit music or dramatic arts organizations held in a public facility were exempted.
- Items purchased by political subdivisions of another state were made taxable if the other state also taxes the items.
- A new highway contract privilege tax was established at 5% of the gross contract amount for contracts bid after July 31, 1993. This tax terminated December 31, 1997.

1994 Special Session.

- Further expanded the manufacturing exemption to include machinery and equipment used primarily in manufacturing and research and development equipment.
- A new exemption was created for materials used to construct an agricultural commodity processing facility.

1995 Session.

- Tire retreading was made taxable.
- The tax on controlled substances and the waste collection surcharge were repealed.

1997 Session.

- The legislature approved a sales and use tax of 6¢ per million British thermal units (MBTU) on all sales of coal, except for coal used for heating buildings or used in agricultural processing or sugar beet refining plants, or coal exempted from the tax imposed by N.D.C.C. ch. 57-61.
- An exemption was provided to a political subdivision of another state provided a sale to a North Dakota political subdivision is treated as an exempt sale in that state.

1999 Session.

- The legislature changed the 6¢ per million British thermal units (MBTU) sales tax rate on coal to 75¢ per ton.
- The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was reduced from 3% to 1½%.
- The exemption on manufacturing machinery and equipment was expanded to include crude oil refineries for the period February 1, 1999 through July 1, 2002.
- The legislature provided for corporations and LLCs to post a cash or surety bond in lieu of personal liability of the corporate offices, governors or managers.

2001 Session.

- The 75 cents per ton sales tax on out-of-state coal was repealed.
- The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was changed from 1½% to a complete exemption effective July 1, 2002.
- The exemption for new power plants was expanded to include wind-powered electrical generating facilities and a new exemption was created for computer and telecommunication equipment purchased by new or expanding primary sector businesses other than manufacturers or recyclers.
- Sales tax was imposed on all vehicle rentals of less than 30 days at a rate of 5% and an additional 3% surcharge was imposed on vehicles weighing less than ten thousand pounds.
- The rate of penalty applied to delinquent sales tax returns was changed to 5% per month up to a maximum of 25%.
- The method of imposing motor vehicle excise tax on leased vehicles (cars and light trucks) was changed from paying tax on the lessor's purchase price to paying tax on the total lease consideration.

2003 Session.

- The legislature increased the tax rate on the rental of hotel, motel, and tourist court accommodations (excluding bed and breakfast facilities) from 5% to 6% from July 1, 2003 through June 30, 2007.
- New exemptions were created for purchases made by Commerce Authorities, purchases of raffle prizes made by charitable organizations when the prize winner is responsible for the tax, and on sales of lottery tickets.
- The legislature adopted the Streamlined Sales Tax Agreement effective January 1, 2006. The agreement is a cooperative effort between business representatives and state tax and revenue departments to modernize and simplify sales and use taxes across the country. Changes necessary for North Dakota to become compliant with the terms of the agreement were passed with a January 1, 2006 effective date.

2005 Session.

- The legislature authorized cities to impose a tax up to 1% on the rental of motor vehicles for less than 30 days.
- The legislature also reduced the sales tax rate on the rental of hotel, motel, and tourist court accommodations (excluding bed and breakfast facilities) from 6% to 5% and imposed through June 30, 2007 a separate 1% gross receipts tax on these accommodations.
- New exemptions were created for purchases made by assisted living facilities and emergency medical service providers, purchases of CO2 used for enhanced

oil recovery, retail purchases of equipment used to sell biodiesel fuel, retail purchases of hydrogen to power internal combustion engines and fuel cells and equipment used to produce and store hydrogen.

- Exemptions were also created for the portion of a bundled telecommunications charge that is attributable to nontaxable services, sales of precious metal bullion, and purchases after June 30, 2007 of equipment used in an environmental upgrade of an oil refinery or gas processing plant.
- The legislature also finalized the changes necessary for North Dakota to be in full compliance with the Streamlined Sales Tax Agreement and moved the effective date of these changes to October 1, 2005. The most significant change was to exempt the sales of farm machinery, farm irrigation equipment, and alcoholic beverages from sales tax and to impose separate gross receipts taxes on these products.

2007 Session:

- The legislature exempted coal used for heating purposes and reduced the tax rate on natural gas from 2% to 1% beginning January 1, 2008. Natural gas will be exempt from tax effective July 1, 2009.
- The sales tax exemption available to Native Americans was expanded to include members that are enrolled in any federally recognized tribe and that reside on the reservation where the goods are delivered.
- The legislature authorized retailers to voluntarily cap the amount of local tax collected for a city or county that has limited its tax to a maximum amount per transaction.
- New exemptions were authorized for the sale of bingo cards, materials purchased and used to gather, compress, and process gas and materials used to build or expand a gas processing facility or oil refinery.
- An exemption was also authorized for materials used to construct a new category of electrical generating power plants.
- New motor vehicle excise tax exemptions were also approved for ambulances purchased for use by emergency medical service operators, vehicles purchased by the state lottery to be awarded as a prize, and certain purchases of vehicles by disabled veterans. In addition, the exemption from motor vehicle excise tax for Native Americans was expanded to include motor vehicles delivered anywhere within North Dakota to an enrolled member of any federally recognized tribe if the Native American resides on a North Dakota reservation.

Other Revenue Collections
Local Option Taxes, Music and Composition Tax and Provider Assessment Collections

Fiscal Year	Local Sales & Use (1)	City Lodging (2)	City Motor Vehicle Rental (3)	City Restaurant and Lodging	Music and Composition	Provider Assessment (4)
1998	48,929,646	1,023,667		1,910,488	74,424	
1999	54,058,001	923,479		2,064,346	82,456	
2000	58,711,263	898,527		2,006,046	78,211	
2001	66,961,363	978,713		2,226,938	90,050	
2002	65,368,838	957,524		2,223,865	84,901	
2003	73,666,551	1,034,752		2,439,338	89,902	
2004	68,644,864	958,482		2,393,809	91,113	3,129,863
2005	78,761,154	1,095,595		2,725,275	93,875	3,250,759
2006	87,563,544	1,173,548	13,327	2,887,157	46,749	3,781,260
2007	92,143,032	1,339,278	98,422	3,511,966	170,518	3,700,675
2008	96,566,720	1,474,318	92,014	3,663,163	131,470	3,983,220

(1) Collections by the North Dakota Office of State Tax Commissioner. Collections include Gross Receipts tax.
(2) Amounts are city lodging taxes collected by the North Dakota Office of State Tax Commissioner. Devils Lake (effective July 1, 2003), Fargo, Grand Forks, Minot (effective January 1, 1998), and Valley City (effective April 1, 2000) administer city lodging taxes themselves and those collections are not included here.
(3) City motor vehicle rental tax was authorized by the 2005 Legislature. Currently, Bismarck, Minot and Grand Forks impose this 1% tax.
(4) Effective July 1, 2003.

SOURCE: North Dakota Office of State Tax Commissioner.

Sales, Use, Gross Receipts, and Motor Vehicle Excise Taxes Collections and Disbursements

TOTAL (Sales, Use, Gross Receipts, and Motor Vehicle Excise Taxes)				
Fiscal Year	**All Funds Total**	**To General Fund**	**To State Aid Distribution Fund** [(1)]	**To Highway Distribution Fund**
1998	363,158,056	319,584,864	43,573,192	
1999	383,116,174	344,780,052	38,336,122	
2000	386,340,221	355,433,005	30,907,266	
2001	398,639,882	366,748,691	31,891,191	
2002	401,460,878	369,344,008	32,116,870	
2003	424,852,990	390,863,587	33,989,403	
2004	438,530,207	403,447,790	35,082,417	
2005	480,575,627	442,315,674	38,259,953	
2006	495,565,709	456,024,312	39,541,397	
2007	555,981,644	511,629,001	44,352,463	
2008	611,082,615	554,779,839	48,869,266	7,433,510
2009 est.	719,209,000	656,232,000	56,651,000	6,326,000

Sales, Use, and Gross Receipts Taxes				Motor Vehicle Excise Tax			
Fiscal Year	Total Sales and Use	General Fund	State Aid Distribution Fund [(1)]	Total Motor Veh. Taxes	General Fund	State Aid Distribution Fund [(1)]	Highway Distribution Fund
1998	308,636,871	271,606,221	37,030,650	54,521,185	47,978,643	6,542,542	
1999	331,027,858	297,895,606	33,132,252	52,088,316	46,884,446	5,203,870	
2000	326,261,970	300,161,047	26,100,973	60,078,251	55,271,958	4,806,293	
2001	340,114,586	312,905,419	27,209,167	58,525,296	53,843,272	4,682,024	
2002	335,504,710	308,664,333	26,840,377	65,956,168	60,679,675	5,276,493	
2003	360,819,598	331,954,030	28,865,568	64,036,392	58,912,557	5,123,835	
2004	368,415,222	338,942,004	29,473,218	70,114,985	64,505,786	5,609,199	
2005	411,553,514	378,815,330	32,738,184	69,022,113	63,500,344	5,521,769	
2006	428,906,406	394,697,753	34,208,653	66,659,303	61,326,559	5,332,744	
2007	485,986,114	447,233,113	38,753,001	69,995,530	64,395,888	5,599,642	
2008	530,283,623	487,878,783	42,404,840	80,798,992	66,901,056	6,464,426	7,433,510
2009 est.	645,559,000	594,800,000	50,759,000	73,650,000	61,432,000	5,892,000	6,326,000

(1) The formula to calculate the State Aid Distribution Fund (S.A.D.F.) is: 40% (1% ÷ general sales tax rate) (net collections of sales, use, and motor vehicle excise tax collections). Revenues deposited in the state aid distribution fund are provided as a standing and continuing appropriation.

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

Local Sales, Use, and Gross Receipts Taxes
Net Collections Remitted
2005-2007 Biennium

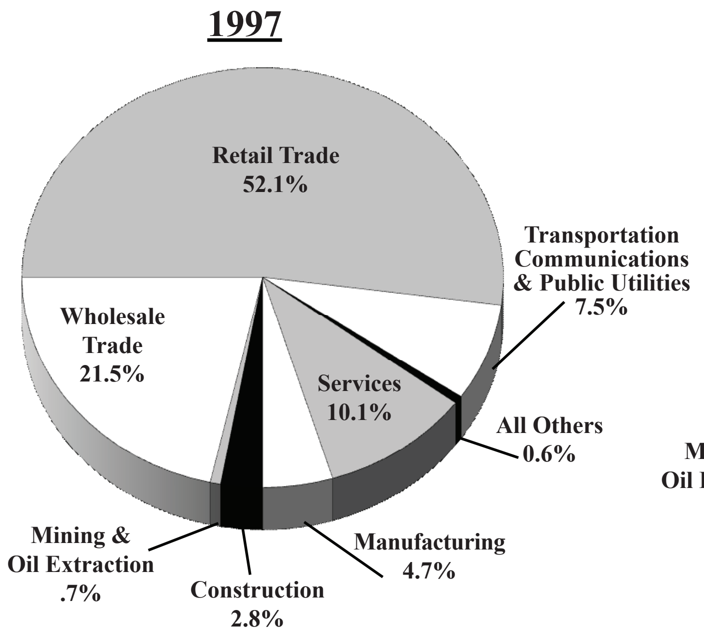
City	Start Date*	Tax FY-2006	Tax FY-2007	Biennium Total
Aneta	1/05	$ 10,061	$ 11,078	$ 21,139
Ashley	4/98	43,526	46,763	90,290
Beach	10/97	89,089	120,443	209,532
Belfield	4/95	89,845	139,275	229,120
Berthold	1/96	25,482	26,023	51,505
Beulah	10/03	254,325	303,489	557,814
Bismarck	4/86	10,132,815	11,518,633	21,651,448
Bottineau	10/93	434,651	471,108	905,759
Bowman	10/94	195,438	251,195	446,632
Buffalo	1/03	18,286	18,839	37,126
Cando	1/98	62,793	72,128	134,920
Carrington	1/94	252,004	291,763	543,767
Carson	10/02	13,628	15,584	29,212
Casselton	4/98	136,436	142,774	279,210
Cavalier	10/94	212,321	220,467	432,788
Cooperstown	7/96	84,553	84,329	168,882
Crosby	1/93	77,679	84,878	162,558
Devils Lake	7/88	1,546,360	1,775,319	3,321,680
Dickinson	7/90	3,372,567	3,942,776	7,315,343
Drake	7/05	9,170	11,609	20,780
Drayton	10/97	51,318	55,460	106,778
Dunseith	1/05	40,198	51,107	91,305
Edgeley	1/97	48,376	79,595	127,971
Edinburg	4/99	16,351	15,835	32,186
Elgin	4/00	34,636	35,120	69,757
Ellendale	1/95	89,073	99,140	188,213
Enderlin	10/98	93,162	115,967	209,129
Fairmount	4/05	12,782	22,070	34,852
Fargo	4/89	26,307,841	21,686,558	47,994,399
Finley	10/98	50,608	47,667	98,275
Fort Ransom	1/00	8,409	9,921	18,330
Gackle	1/06	2,920	16,565	19,484
Garrison	1/96	91,608	152,684	244,292
Glen Ullin	1/07	0	12,298	12,298
Grafton	1/91	362,192	439,959	802,152
Grand Forks	1/85	13,972,808	15,516,629	29,489,437
Grenora	10/02	9,513	10,072	19,585
Gwinner	4/05	227,675	281,088	508,763
Halliday	7/96	16,640	18,966	35,606
Hankinson	10/97	48,016	94,188	142,204
Hannaford	10/04	10,324	11,880	22,204
Harvey	10/91	146,324	161,262	307,586
Hatton	4/98	39,258	47,764	87,022
Hazelton	10/00	19,754	20,112	39,866
Hazen	4/95	159,333	172,768	332,101
Hettinger	7/96	140,419	162,693	303,113
Hillsboro	10/98	205,866	236,655	442,521
Hoople	1/99	12,219	12,792	25,011
Hope	1/01	39,463	49,419	88,882
Jamestown	7/91	3,270,288	3,631,905	6,902,193
Kenmare	1/93	97,795	127,612	225,407
Killdeer	4/95	62,751	81,341	144,092
Kulm	4/98	19,303	22,776	42,079
Lakota	1/07	0	11,424	11,424
LaMoure	1/97	98,633	113,352	211,985
Counties				
Cass**	10/99	6,578	7,577	14,155
Steele	4/05	88,970	101,887	190,857
Walsh	4/01	164,167	185,661	349,828
Williams	10/06	0	1,176,833	1,176,833
Totals for Counties		**$ 259,715**	**$ 1,471,958**	**$ 1,731,673**
Total Local Option Taxes Paid		**$ 87,181,927**	**$ 92,142,013**	**$ 179,323,940**

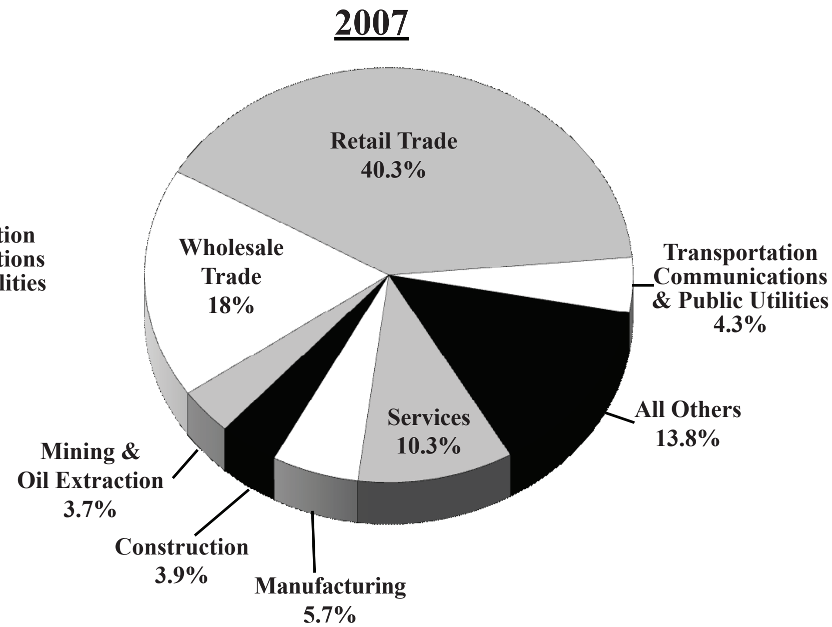
City	Start Date*	Tax FY-2006	Tax FY-2007	Biennium Total
Langdon	1/94	$ 190,836	$ 193,542	$ 384,378
Larimore	1/95	58,037	60,826	118,864
Leonard	4/07	0	1,244	1,244
Lidgerwood	10/00	40,835	48,498	89,333
Linton	10/93	66,561	109,018	175,579
Lisbon	7/95	196,315	207,537	403,852
Maddock	10/02	39,551	37,461	77,012
Mandan	4/91	1,309,110	1,485,747	2,794,856
Mayville	1/97	286,550	301,837	588,387
McClusky	1/96	16,340	21,313	37,653
McVille	1/02	17,367	20,942	38,309
Medora	1/00	301,346	306,658	608,004
Michigan	10/01	23,305	26,586	49,891
Milnor	10/98	48,325	49,847	98,171
Minnewaukan	1/07	0	3,228	3,228
Minot	4/86	11,219,623	12,588,551	23,808,174
Minto	4/07	0	2,003	2,003
Mohall	10/92	44,962	46,376	91,338
Mott	4/97	78,551	80,884	159,435
Munich	1/99	9,004	9,688	18,692
Napoleon	10/96	46,630	47,042	93,672
Neche	1/04	12,741	15,664	28,404
New England	10/02	42,232	59,899	102,130
New Leipzig	1/99	10,279	10,337	20,616
New Rockford	10/96	96,368	96,053	192,421
New Salem	4/07	0	8,268	8,268
Northwood	1/03	73,264	117,629	190,894
Oakes	10/96	274,931	301,406	576,337
Oxbow	1/02	20,638	22,252	42,889
Page	4/05	12,127	11,876	24,004
Park River	1/95	224,662	239,194	463,856
Pembina	1/93	75,113	85,125	160,238
Portland	1/97	44,594	48,192	92,786
Powers Lake	4/97	21,938	25,658	47,595
Reeder	1/03	8,728	9,617	18,346
Regent	1/97	14,645	14,268	28,913
Richardton	10/97	33,182	64,815	97,997
Rolette	1/03	33,543	34,551	68,093
Rolla	1/94	268,883	268,980	537,863
Rugby	1/93	233,259	245,403	478,663
Scranton	4/02	26,091	24,116	50,207
St. John	1/01	7,392	7,527	14,919
Stanley	10/95	94,839	113,521	208,360
Steele	10/96	74,555	82,486	157,041
Strasburg	4/93	21,400	20,076	41,476
Tioga	1/95	81,113	132,204	213,316
Tower City	10/02	13,726	14,598	28,323
Towner	10/98	24,948	27,461	52,409
Turtle Lake	10/00	26,481	29,359	55,840
Underwood	10/06	0	125,812	125,812
Valley City	1/92	881,490	896,983	1,778,472
Velva	1/99	53,951	67,786	121,736
Wahpeton	7/91	1,095,089	1,140,399	2,235,487
Walhalla	10/97	72,477	78,408	150,885
Washburn	10/00	87,553	104,511	192,065
Watford City	10/98	152,406	185,223	337,629
West Fargo	10/94	2,506,625	2,532,805	5,039,430
Williston	7/91	3,232,034	4,468,670	7,700,704
Wilton	10/00	33,810	31,032	64,842
Wimbledon	1/05	11,738	15,561	27,299
Wishek	4/97	63,234	70,387	133,621
Totals for Cities		**$ 86,922,212**	**90,670,055**	**177,592,267**

* The Start Date is the original date the local tax was initiated.
** Repealed 4/1/2003

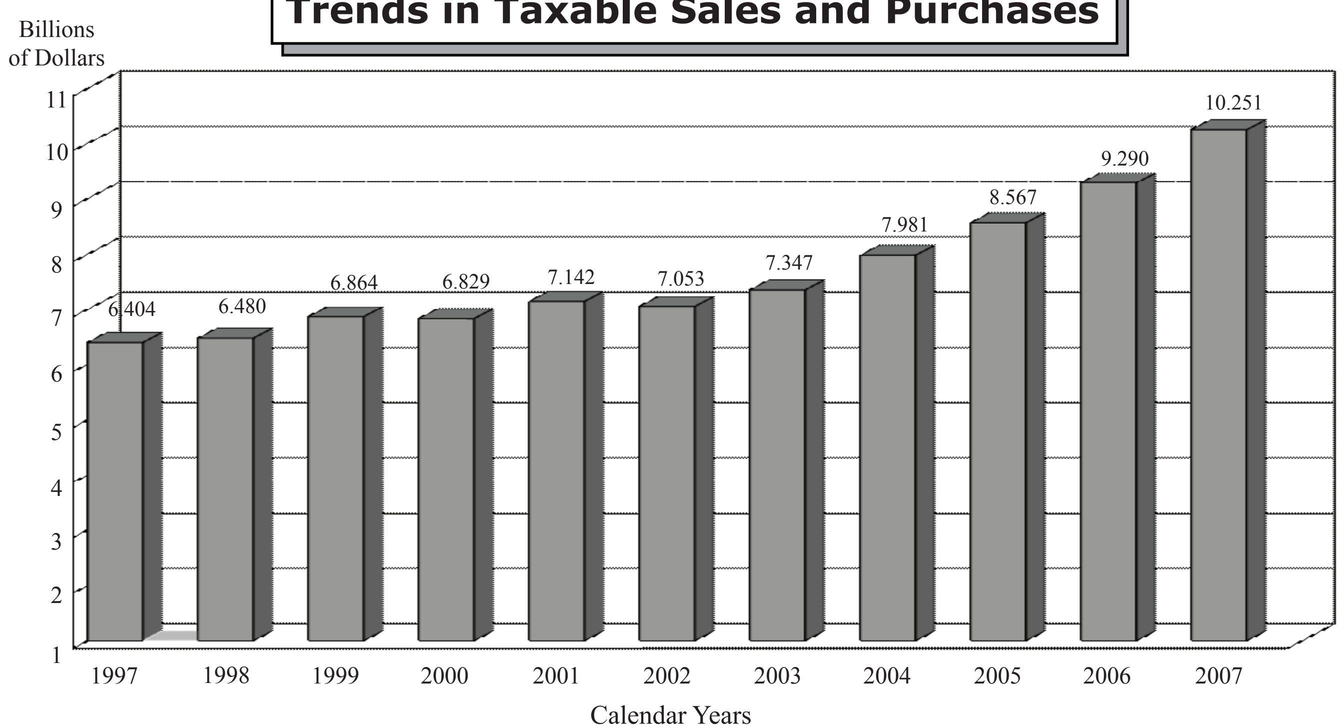
SOURCE: North Dakota Office of State Tax Commissioner.

Taxable Sales and Purchases
Percentage by Business Classification
Calendar Years 1998 and 2007





Trends in Taxable Sales and Purchases



North Dakota Sales and Use Tax Exemptions Estimated Biennial Fiscal Effect *

	Biennial Estimate Low	Biennial Estimate High
Exempt Products		
Resources		
Gasoline	$160,000,000	$200,000,000
Coal	25,000,000	30,000,000
Electricity	36,000,000	41,000,000
Water Through Mains	1,400,000	2,000,000
Natural Gas	15,000,000	20,000,000
Publishing		
Newspapers	$2,500,000	$3,000,000
Magazine Subscriptions	1,200,000	1,500,000
Bibles, Hymnals, Prayerbooks and Textbooks Purchased by Private Schools		Less Than $5,000
Textbooks Purchased by Students	750,000	1,000,000
Medical		
Prescription Drugs	$8,800,000	$12,825,000
Oxygen and Anesthesia Gases	50,000	80,000
Artificial Devices (Hearing Aids, Eyeglasses, Limbs)	1,100,000	1,900,000
Ostomy Devices and Supplies	50,000	80,000
Diabetic & Bladder Dysfunction Supplies	250,000	350,000
Equipment to Modify Articles for Disabled	20,000	40,000
Sales to Hospitals and Nursing Homes	6,250,000	7,250,000
Agricultural		
Commercial Fertilizer (For Ag Purposes)	$16,000,000	$20,000,000
Livestock and Poultry Feed	13,500,000	18,000,000
Seeds for Planting	10,500,000	13,500,000
Fungicides, Herbicides, and Insecticides	14,500,000	19,000,000
Used Farm Machinery and Repair Parts	12,000,000	17,000,000
Other		
Money	250,000	350,000
Grocery Foods	65,000,000	75,000,000
Exempt Products Total	**$390,120,000**	**$483,880,000**
Miscellaneous Exemptions		
Rental of Hotel and Motel Accommodations	$190,000	$290,000
Film Rental (Movie Theater)	400,000	500,000
Sales to Residents of Montana	1,000,000	2,000,000
Sales to Residents of Canada (Refund)	1,000,000	2,000,000
State and Local Fairs	100,000	175,000
Private and Parochial Schools	500,000	700,000
Inter-State Telephone	2,000,000	4,000,000
Cable Television	3,000,000	4,000,000
Auctions	3,000,000	4,000,000
Manufacturing & Recycling Equipment	25,000,000	30,000,000
Bingo Cards	3,000,000	4,000,000
Miscellaneous Exemptions Total	**$39,190,000**	**$51,665,000**

	Biennial Estimate Low	Biennial Estimate High
Exempt Services		
Veterinary Services	$1,500,000	$2,000,000
Financial Services	3,250,000	5,500,000
Oil and Gas Field Services	15,000,000	20,000,000
Construction	15,000,000	24,000,000
Funeral Services	2,000,000	3,000,000
Miscellaneous Personal Services	600,000	700,000
Farm Machinery Repair	1,000,000	2,000,000
Transportation Services	200,000	400,000
Lawn Care Services	600,000	800,000
Engineering, Architecture, and Surveying	700,000	1,300,000
Health Services	80,000,000	125,000,000
Laundry, Dry Cleaning Service	1,200,000	2,000,000
Beauty and Barber Shops	3,000,000	4,000,000
Automotive Repair	8,000,000	12,500,000
Miscellaneous Repair	3,500,000	5,500,000
Accounting, Auditing and Bookkeeping	3,200,000	4,200,000
Business Services	6,000,000	7,000,000
Legal Services	7,000,000	9,000,000
Exempt Services Total	**$151,750,000**	**$228,900,000**
Grand Total All Exemptions	***$581,060,000***	***$764,445,000***
Partial Exemptions (fiscal effect is computed at 2% for new farm machinery and mobile homes)		
New - Farm Machinery and Repair Parts	$9,000,000	$13,000,000
New Mobile Homes	300,000	500,000
Total Partial Exemptions	**$9,300,000**	**$13,500,000**

* Calculations are based on 5% state sales and use tax rate. All amounts are preliminary and subject to change as additional information becomes available.

SOURCE: North Dakota Office of State Tax Commissioner, Research Section

Biennial Filing Deductions

Sales Taxes **$ 3,800,000**

Businesses with taxable sales and purchases of $333,000 or more per year receive compensation of up to $85 per month for filing monthly returns.

Cigarette Tax **$ 50,000**

Wholesalers who file and pay on time may deduct up to $100 per month. This deduction was originally to compensate for stamping cigarette packages. In 1991 the stamping requirement was repealed, but the compensation remains.

SOURCE: North Dakota Office of State Tax Commissioner,

STATE COMPARISONS

There are 13 states with general state sales tax rates lower than North Dakota's 5% rate. However, in comparing North Dakota's sales tax to other states, one must also consider the tax base, the goods and services subject to the tax, as well as the level of local sales taxes.

Tax Base. Does a state include groceries, electricity, prescription drugs, and services such as legal, business, accounting, architecture, lawn care?

In an effort to lessen the impact of taxes on a family's ability to buy necessities, North Dakota exempts groceries, residential electricity, and a few other essentials. States can also make a sales tax somewhat more progressive by taxing goods or services used mostly by upper income purchasers. The charts on the next few pages detail specific items taxed in each state.

Local Sales Taxes. In addition to a general state sales tax, most states allow local subdivisions to levy a sales tax as well. In some cases (Colorado, for example), the local rate may actually be higher than the state rate. As of September 2008, 118 cities and 3 counties impose a local tax from ¼ to 2½%. However, most local taxes have a refund provision that allows the purchaser to obtain a refund of the local tax paid on any portion of a purchase greater than $2,500. The most common local rate is 1%.

Example. A comparison of sales taxes in North Dakota and South Dakota provides a good example of the impact of different tax bases and local taxes. Because more goods and services are taxed in South Dakota, that state's 4% state sales tax rate generally results in a higher tax payment than North Dakota's 5% rate.

State Sales Tax Rates Comparison with the Other 45 States (and D.C.) That Levy a Sales Tax

October 1, 2008

	Number of States		
	Rates Lower Than N.D.	Rates the Same As N.D.	Rates Higher Than N.D.
Other States' Rates Compared to N.D.'s	13	4	28

Note: Out of a possible 168 taxable services, North Dakota taxes only 25 services and does not tax groceries or electricity.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, October 2008.

Total Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 2007

Rank	State	Per Capita Total Sales and Gross Receipts Taxes
1	Hawaii	$ 2,516
2	Washington	2,142
3	Nevada	1,998
4	Wyoming	1,579
5	Florida	1,509
6	Connecticut	1,417
7	Minnesota	1,405
8	Mississippi	1,404
9	New Jersey	1,375
10	Vermont	1,361
11	Arkansas	1,360
12	Tennessee	1,357
13	Texas	1,331
14	Maine	1,284
15	Rhode Island	1,282
16	South Dakota	1,280
17	**NORTH DAKOTA**	**1,264**
18	New Mexico	1,260
19	Louisiana	1,252
20	West Virginia	1,229
21	Indiana	1,222
22	Pennsylvania	1,165
23	Arizona	1,158
24	Michigan	1,152
25	Illinois	1,113
26	Idaho	1,113
27	California	1,106
28	Kansas	1,101
29	Nebraska	1,100
30	Kentucky	1,082
31	Wisconsin	1,078
32	South Carolina	1,038
33	Maryland	1,035
34	New York	1,011
35	Utah	992
36	Ohio	979
37	North Carolina	978
38	Alabama	949
39	Massachusetts	930
40	Iowa	926
41	Georgia	860
42	Missouri	819
43	Oklahoma	813
44	Virginia	778
45	Colorado	710
46	New Hampshire	558
47	Montana	553
48	Delaware	531
49	Alaska	322
50	Oregon	209
	US Average	$1,147

* Total Sales and Gross Receipts Taxes includes taxes on alcoholic beverages, amusements, insurance premiums, motor fuels, parimutuels, public utilities, tobacco products and other selective sales.

SOURCE: US Dept. of Commerce, Census Bureau.

General Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 2007

Rank	State	Per Capita General Sales and Gross Receipts Taxes
1	Hawaii	$1,993
2	Washington	1,679
3	Wyoming	1,335
4	Nevada	1,235
5	Florida	1,192
6	Tennessee	1,099
7	Mississippi	1,081
8	Arkansas	1,024
9	New Jersey	961
10	New Mexico	936
11	Arizona	897
12	California	894
13	South Dakota	894
14	Connecticut	865
15	Minnesota	860
16	Texas	855
17	Indiana	855
18	Idaho	852
19	Nebraska	836
20	Rhode Island	828
21	Louisiana	811
22	Kansas	808
23	Maine	801
24	Michigan	793
25	**NORTH DAKOTA**	**757**
26	Wisconsin	742
27	Utah	739
28	South Carolina	734
29	Pennsylvania	697
30	Ohio	679
31	Georgia	669
32	Kentucky	664
33	Massachusetts	632
34	West Virginia	623
35	Maryland	614
36	Illinois	608
37	Iowa	598
38	North Carolina	574
39	New York	564
40	New Hampshire	558
41	Missouri	557
42	Oklahoma	543
43	Vermont	539
44	Alabama	492
45	Virginia	459
46	Colorado	456
47	Alaska	n/a
48	Delaware	n/a
49	Montana	n/a
50	Oregon	n/a
	US Average	$784

SOURCE: US Dept. of Commerce, Census Bureau.

Comparison of State Sales Tax Rates

Tax Rates in Effect October 1, 2008

States	General State Rate	Highest Local Rate	Grocery Foods	Alcohol	Farm Machinery	Electricity (non-mfg. use)	Natural Gas (non-mfg. use)	Water (Utilities)	(12) Taxable Services of 164	DIRECT MANUFACTURING USE: Consumables	DIRECT MANUFACTURING USE: Natural Gas	DIRECT MANUFACTURING USE: Electricity	DIRECT MANUFACTURING USE: Machinery
Alabama	4.0%	5.0%	4.0%	4.0%	1.5%	4.0%	4.0%	4.0%	36	4.0%	4.0% (19)	4.0% (19)	1.5%
Alaska*	N/A	7.0%	N/A	N/A	N/A	N/A	N/A	N/A	1	N/A	N/A	N/A	N/A
Arizona(3)	5.6%	4.0% (52)		5.6%		5.6%	5.6%	5.6%	58		5.6%	5.6%	
Arkansas	6.0%	4.0%	3.0%	6.0%	(4)	6.0%	6.0%	6.0%	72		4.0%	4.0%	
California	6.25%	2.0%		6.25%	1.250%	.00022 cents (5)	Varies		23	6.25%	Varies (5)	.00022 cents (5)	6.25%
Colorado	2.9%	5.0%		2.9%		2.9% (6)	2.9% (6)		14	2.9%			2.9%
Connecticut	6.0%			6.0%	(4)	6.0% (6) (7)	6.0% (6) (7)	(16)	80	6.0% (1) (15)	(15) (22)	(22)	(1) (22)
District of Columbia	5.75%			9%/10% (13)					68	5.75%			5.75%
Delaware*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	143	N/A	N/A	N/A	N/A
Florida	6.0%	1.5%		6.0%		7.0%	6.0% (6)		62	6.0%			6.0% (14)
Georgia	4.0%	4.0%		4.0%	(4)	4.0%	4.0%		36	4.0%	4.0% (29)	4.0%	
Hawaii	4.0%		4.0%	4.0%	4.0%	4.0%		4.0%	158	4.0%	4.0%	4.0%	4.0%
Idaho	6.0%	3.0%	6.0%	6.0%	(4)				30				
Illinois	6.25%	3.0%	1.0%	6.25%	(39)	(5)	(5)	(5)	17				
Indiana	7.0%			7.0%		7.0%	7.0%	7.0%	23				
Iowa	6.0%	1.0%		6.0%		6.0% (6)	6.0% (6)	6.0%	76				
Kansas	5.3%	2.75%	5.3%			5.3% (6) (7)	5.3% (6) (7)	5.3% (6) (7)	71			(2)	
Kentucky	6.0%			6.0% (53)		6.0% (6)	6.0% (6)	6.0% (6)	27		6.0% (20)	6.0% (20)	(14)
Louisiana	4.0%	7.0%		4.0%	4.0% (48)	3.8% (34)	3.8% (34)		55	4.0%	3.8% (34)	3.8% (34)	(56)
Maine	5.0%			5.0% (40)	(4)	5.0% (41)	5.0% (6)	5.0% (6)	24	(17)	(59)	(59)	
Maryland	6.0%			6.0%		6% (6)	6.0% (6)	6.0% (6)	39				
Massachusetts	5.0%					5.0% (6) (21) (42)	5.0% (6) (21) (42)	5.0% (6) (21) (42)	19		(21) (42)	(21) (42)	
Michigan	6.0%			6.0%	(4)	6.0% (8)	6.0% (8)		26	(18)			(10)
Minnesota	6.5%	1.0%		6.5%/9.0% (24)		6.5% (6) (7)	6.5% (6) (7)	6.5% (6)	67				(14)
Mississippi	7.0%	0.25%	7.0%	7.0%	3.0% (25)	7.0% (6)	7.0% (6)	7.0% (6)	74	7.0%	1.5%	1.5%	1.5%
Missouri	4.225%	4.5%	1.225%	4.225%	(27)	4.225% (6) (11)	4.225% (6) (11)	4.225% (6) (11)	27	(64)	(64)	(15) (23)	(64) (14)
Montana*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19	N/A	N/A	N/A	N/A
Nebraska	5.5%	1.5%		5.5%		5.5%	5.5%	5.5%	76	5.5%	5.5% (22)	5.5% (22)	5.5% (22)
Nevada	6.5%	1.25%		6.5%	6.5%				15	6.5%			6.5%
New Hampshire*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9	N/A	N/A	N/A	N/A
New Jersey	7.0%	9.0% (30)		7.0% (31)		7.0%	7.0%		59	7.0%	7.0%	7.0%	
New Mexico	5.0%	3.4375%	(66)	5.0%	2.5%	5.0%	5.0%	5.0%	151	5.0%	5.0%	5.0%	5.0%
New York	4.0%	4.75%		4.0%		4.0% (6)	4.0% (6)		74				
North Carolina	4.5%	3.0%	2.0%	4.5%		3.0%	4.50% (54)	4.50% (55)	29	1.0% (26)	0.50%	Varies (32)	1.0% (26)
NORTH DAKOTA	5.0%	2.5%		7.0% (49)	3.0% (50)		1.0% (67)		25	5.0%	1.0% (67)		(14)
Ohio	5.5%	2.0%		5.5%	(4)		5.5% (28)		66				
Oklahoma	4.5%	5.0%	4.5%	4.5%		4.5% (6) (7)	4.5% (6)(7)		32	4.5%			
Oregon*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	N/A	N/A	N/A	N/A
Pennsylvania	6.0%	1.0%		6.0% (33)	(7)	6.0% (6)	6.0% (6)	6.0% (6)	55				
Rhode Island	7.0%			7.0%	(4)	7.0% (6)	7.0% (6)	7.0% (6)	30				
South Carolina	6.0%	2.0%	6.0% (57)	6.0%		6.0% (6)	6.0% (6)	6.0% (58)	34	(18)			
South Dakota	4.0%	2.0%	4.0%	4.0%	4.0% (63)	4.0%	4.0% (7)		144	4.0%	4.0%	4.0%	4.0%
Tennessee	7.0%	2.75%	5.5%	7.0%		Varies (9)	Varies (9)	7.0%	67		1.5%	1.5%	
Texas	6.25%	2.0%		6.25% (44)		6.25% (6)	6.25% (6)		79				
Utah	4.65%	3.65% (68)	1.75%	4.65% (46)		2.0% (45)	2.0% (45)		58	4.65%			
Vermont	6.0%	1.0%		6.0% (36)		6.0%	6.0%		29				
Virginia	4.0%	1.0%	1.5%	4.0%	(60)	Varies (37)	Varies (37)	(65)	18		Varies (37)	Varies (37)	
Washington	6.5%	2.5%		6.5% (61)	6.5%	(38)	(38)	(38)	155	6.5%	(38)	(38)	
West Virginia	6.0%		3.0%	6.0% (35)	(4)				110	6.0%			
Wisconsin	5.0%	0.6%		5.0%	(4)	5.0% (7) (51)	5.0% (7) (51)		70	5.0%	(18)	(18)	(18)
Wyoming	4.0%	3.0%	(62)	4.0%		4.0% (7)	4.0% (7)		61	4.0% (43)			(47)

* This state does not impose a sales tax.

Comparison of State Sales Tax Rates - - - Footnotes

(1) Provides full exemption from manufacturing. Connecticut has a broader overlapping partial (50%) exemption from materials, tools, fuel, machinery and equipment used in fabricating and processing.
(2) Electricity used to power manufacturing equipment is exempt.
(3) Arizona is a Transaction Privilege Tax state, not a Sales Tax state.
(4) Farm machinery is exempt from sales and use taxes if the purchaser is engaged in farming as a business enterprise.
(5) In some states the tax is called a "utility tax" rather than a sales tax. In California the tax is an energy resources surcharge paid by consumers.
(6) Residential use is exempt.
(7) Agricultural use is exempt.
(8) In Michigan, the tax rate is 4% on electricity and natural gas used for home heating.
(9) Residential use is exempt, commercial is 7%, industrial 1.5%.
(10) Exemption is based on percentage used in manufacturing.
(11) Hotels and motels are exempt.
(12) The number of taxable services is out of a possible 164 services covered in the study, "Sales Taxation of Services," Federation of Tax Administrators, 2004. Includes business tax in Delaware.
(13) 9% for liquor sold for off-premise consumption and 10% for liquor sold for consumption on the premises.
(14) The exemption is generally for machinery and equipment used for new or expanding production. States have different definitions and qualifications.
(15) Materials, tools and fuel used in the actual fabrication of a product for sale, in an agricultural production process, or in the fishing industry are exempt.
(16) Exempt when delivered to customers through mains, lines, pipes or bottles.
(17) Exempt if consumed within 1 year.
(18) Exempt when used in actual production process.
(19) Exempt if separately metered and used in electrothermal or electrolyc process manufacturing.
(20) Amounts over 3% of production costs are exempt.
(21) Exempt for business qualifying for "small business" status.
(22) Exempt if more than 50% is used in manufacturing.
(23) May apply for exemption, if electricity cost is greater than 10% of production costs.
(24) 3.2% beer is taxed at 6.5%. Over 3.2% beer and hard liquor is taxed at a 6.5% sales tax and 2.5% gross receipts tax.
(25) Farm machinery is taxed at 1% for farm tractors, 3% for listed farm implements, and 7% for nonlisted farm items.
(26) Sales of machinery and consumables to manufacturers are exempt from sales tax but subject to a 1% privilege tax with a maximum tax of $80.00 per article.
(27) Exempt if used exclusively for agricultural purposes, used on land that is owned or leased to produce farm products, and used directly in production of farm products.
(28) If sold by public utility then it is exempt. If sold by non-public utility then taxed at 5.5%.
(29) Natural gas directly used to produce electricity is exempt from the 4% State Tax.
(30) This is the Atlantic City Luxury Sales Tax which is imposed on specific taxable retail sales within Atlantic City.
(31) Alcoholic beverages are also subject to an additional 3% Atlantic City Luxury Sales Tax on sales within Atlantic City.
(32) Based on prior year megawatt hours. 0-900,000 = 2.83%. Over 900,000 hours = .17%
(33) Pennsylvania imposes 6% sales tax on alcohol purchased from the Liquor Control Board or beer distributors/wholesalers. No tax is levied on retail sales of alcohol from eating/drinking establishments.
(34) Sales of electricity and natural gas for non-residential use is subject to the suspended rate or 3.8% (effective through 6/30/09.)
(35) There is a local municipal tax imposed by ordinance to collect 5% tax on off-premises retail sales of liquor and wine.
(36) Wine is subject to a 6% sales tax when sold at retail, or 7% if sold in a city or town that imposes a local option sales tax. Wine served in a bar, restaurant, social club, etc. is subject to a 10% meals and rooms tax, or 11% if sold in a city or town that imposes a local option meals and rooms tax.
(37) Virginia has a three-tier tax rate system called a consumption tax for gas and electricity. This is paid by the consumer. The rate goes down as usage goes up.
(38) There is a public utility tax levied on the provider, not a sales tax.
(39) Exempt if used primarily (more than 50% of the time) in production agriculture or for use in state or federal agricultural programs.
(40) Taxed at 7% if served at a restaurant.
(41) First 750 kilowatt hours of residential use are exempt.
(42) Industrial use is exempt.
(43) Sales of tangible personal property to a person engaged in the business of manufacturing, processing or compounding when the tangible personal property purchased becomes an ingredient or component of the tangible personal property manufactured, processed or compounded for sale or use and sales of containers, labels or shipping cases used for the tangible personal property so manufactured, processed or compounded is exempt. This subparagraph shall apply to chemicals and catalysts used directly in manufacturing, processing or compounding which are consumed or destroyed during that process. W. S. 39-15-105(a)(iii)(A).
(44) Mixed drinks sold at retail establishments are subject to a 14% gross receipts tax.
(45) Commercial electric and gas utility rate is 4.65%.
(46) Wine and liquor also subject to a 13% excise tax to pay for school lunches.
(47) Machinery must be purchased by a manufacturer classified under NAICS code sector 31-33, does not include non-capitalized machinery except machinery expensed under Section 179 of the IRS Code, and must be executed in the case of a lease and in the case of a sale on or after July 1, 2004.
(48) The first $50,000 of the sales price on certain farm equipment is exempt from the state sales tax.
(49) 7% Alcohol tax is a gross receipts tax.
(50) 3% Farm Machinery tax is a gross receipts tax. Used farm machinery is exempt
(51) Residential heating use is exempt in the months of November through April.
(52) The highest general privilege tax rate is 4%. Several cities have higher rates imposed on certain industries.
(53) 6% Sales tax only applies to on-premises consumption.
(54) Piped natural gas is exempt from sales tax and subject to the piped natural gas tax. Sales of natural gas not piped is taxable at the general rate.
(55) Water delivered by or through mainlines or pipes for either commercial or domestic use or consumption is exempt. Sales of water not delivered by or through main lines or pipes is taxable at the general rate.
(56) 68% of the sales price of manufacturing machinery and equipment used in the manufacturing process is exempt (effective 7/1/2008 - 6/30/2009).
(57) 3% if food can be purchased with USDA food coupon.
(58) Water sold by public utilities are exempt if rates and charges are of the kind determined by the PSC of water sold by nonprofit corporations organized pursuant to Chapter 36 of Title 33 South Carolina Code of Laws.
(59) 95% is exempt. Remaining 5% is subject to 5% tax.
(60) Exempt if used in agricultural production for market.
(61) Sales of beer, wine, and liquor by the drink are subject to regular state and local retail sales tax. Liquor purchased by the bottle has a higher sales tax that is included in the price.
(62) Food for domestic home consumption is sales/use tax exempt while prepared food remains taxable.
(63) Farm machinery tax is a 4% excise tax.
(64) If used or consumed in manufacturing, processing, compounding, mining, or producing of any product is exempt from state sales tax, but not local tax.
(65) Water delivered through a utility's pipes is exempt from sales tax.
(66) Sales of qualifying food for home consumption are deductible only at retail food stores as defined under the federal food stamp program.
(67) Exempt effective July 1, 2009.
(68) Includes all combined rate taxes. Other taxes (transient room, prepared food) also apply.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, October 2008.

Sales Tax Comparison of Surrounding States and Provinces
Rates in Effect October 1, 2008

	NORTH DAKOTA	SOUTH DAKOTA	WYOMING	MINNESOTA	IOWA	MANITOBA	SASKATCHEWAN
GENERAL STATE RATE	5%	4%	4%	6.5%	6%	7% (2)	5% (2)
MAXIMUM LOCAL RATE	2.5%	2%	3%	1%	1%		
PRODUCTS							
Motor Vehicles (sales or excise tax)	5%	3%	4%	6.5%		7%	5% (6)
Natural Gas (sales or utility)	1% (19)	4% (3)	4% (3) (4)	6.5% (5)	6%	7%	
Electricity		4%	4% (3) (4)	6.5% (5)	6%	7%	5%
Coal	(8)	4%	4% (1)		6%	7%	
City and Rural Water				6.5% (9)	6%		
Newspapers (retail & subscription)		4%				7%	
Magazines (retail)	5%	4%	4%	6.5%	6%	7%	
Magazines (subscriptions)		4%	4%		6%	7%	
Bibles/Textbooks to Religious Groups		4%	(36)		6%		
Prescription Drugs							
Agricultural Supplies		4% (10)	4% (7)			(31)	
New Farm Machinery	3% (33)	4%				(31)	
Farm Machinery Parts			4%			(31)	
Alcoholic Beverages	7% (34)	4%	4%	6.5% or 9% (13)	6%	7%	
Money (gold & silver coins)		4%			6%	7% (15)	5%
Mobile Homes - - New	3%	3%	4% (11)	6.5% (16)		7% (18)	2.5%
Mobile Homes - - Used		3%		(22)		7% (18)	
Grocery Foods		4%	(37)				
Restaurant	5%	4%	4%	6.5%	6%	7%	
MISCELLANEOUS							
Hotel & Motel Accommodation Rental	5% (20)	4%	4%	6.5%	(20)	7% (20)	5%
Film Rental to Theaters & TV Stations			4%				
Film Rentals (other than to Theatres/TV)	5%	4%	4%	6.5%	6%	7%	5%
State/Local Fairs/Admission				6.5%			
Inter-State Telephone				6.5%		7%	5%
Cable Television		4%	(23)	6.5%	6%	7%	5%
Receipts from Vending Machines	5%	4%	4%	6.5%	6%	7%	5%
Sales to Private and Parochial Schools			4% (24)			7%	5%
Sales to Hospitals		4% (12)	4% (24)	6.5% (25) (39)		7% (32)	5%
Sales to Nursing Homes		4%	4% (24)	6.5% (25) (39)	6%	7% (32)	5%
SERVICES							
Number of Taxable Services (26)	25	144	61	67	76	N/A	N/A
Veterinary Services		4%					5%
Financial Services		(27)			6%		
Oil & Gas Field Services (non-materials)		4%	4% (35)				
Construction (non-materials)		2% (28)				7%	
Funeral Services		4%					
Miscellaneous Personal Services		4% (29)			6%		
Transportation Services		4% (21)	4% (14)		6%		
Lawn Care Services		4%		6.5%	6%		
Engineering, Architecture & Surveying		4%				7% (17)	
Health Services							
Laundry & Dry Cleaning Service		4%	4%	6.5% (40)	6%	7%	5%
Beauty and Barber Shops		4%			6%		
Farm Machinery Repair			4%		6%	(31)	
Automotive Repair		4%	4%		6%	7%	5%
Miscellaneous Repair		4%	4%		6%	7%	5%
Accounting, Auditing & Bookkeeping		4%				7%	5%
Business Services (consulting, etc.)		4%			(38)		
Legal Services		4%				7%	5%
COMPENSATION TO RETAILERS	Yes (30)	No	No	No	No	Yes (30)	Yes

Sales Tax Comparison of Surrounding States and Provinces
Footnotes

(1) Exempt as a fuel for use as boiler fuel in the production of electricity.
(2) Canada also levies a federal goods and services tax (GST) of 7% in addition to the general provincial sales tax (PST).
(3) Exempt for agricultural use.
(4) Exempt if used directly in manufacturing, processing, or agricultural.
(5) Exempt for agriculture and industrial production of personal property and exempt for residential use during the winter months.
(6) PST no longer applies to the sale of eligible used light vehicles on which PST has previously been paid in full. These include cars, sport utilities, light vans and light trucks (one ton and less).
(7) Exempt if feeds, seeds, roots, bulbs, small plants & fertilizer.
(8) Coal mined in North Dakota is subject to severance tax and is exempt from sales tax.
(9) Residential water bills are exempt.
(10) Some supplies are exempt such as feed and seed, but other agricultural supplies are taxable.
(11) 70% of price.
(12) Exempt if hospital is charitable or non-profit.
(13) 3.2 beer - 6.5%. Additional 2.5% on hard liquor, wine, and over 3.2 beer.
(14) Intra-state passenger transportation services are taxable and inter-state transportation of freight and passengers are exempt in Wyoming.
(15) Taxable if sold above face value.
(16) 65% of dealer's cost of new mobile homes is taxed at 6.5% (effective rate is 4.225%).
(17) Engineering and architectural design services are taxable in Manitoba. Surveying is exempt.
(18) Effective April 1, 2006 a point-of-sale exemption is available on the residential purchase of a mobile, modular or ready-to-move home. Vendors will apply sales tax, at point of sale, at a rate of 4% of the basic selling prices (excluding furniture, appliances, etc.).
(19) Exempt effective July 1, 2009.
(20) Rooms rented by and for the same individual are exempt if rented for 30 consecutive days in North Dakota. In Manitoba, hotels and motels rented for one continuous month or more are exempt, and rooms in a lodging/rooming/boarding houses with accommodations for less than four tenants is also exempt. Iowa imposes an excise tax of 5%.
(21) Only passenger Transportation is taxable in South Dakota.
(22) 65% of dealer's cost of new mobile homes for residential purposes is taxed at 6.5% (effective rate of 4.225%). Used homes for residential purposes are exempt. New and used homes for non-residential purposes are taxed at 6.5% of sales price.
(23) While cable service itself is not enumerated as taxable by statute, the rental of equipment (i.e. cable box, remotes, etc.) as well as video on demand and pay per view is taxable.
(24) Sales to schools, hospitals or nursing homes considered charitable or religious are exempt in Wyoming.
(25) Any licensed health care facility or a health care professional can purchase goods used in the treatment of a patient tax free. However, only a hospital can purchase medical equipment tax free.
(26) The number of taxable services in the study "Sales Taxation of Services," Federation of Tax Administrators, 1996.
(27) Real estate commissions are taxable; other financial services are exempt.
(28) 2% on prime contract.
(29) Most membership fees are exempt.
(30) Maximum compensation to retailer in North Dakota is $85 per monthly return (1,020 per year), and in Manitoba, $58 per return. Effective July 1, 2004, vendors with tax reported of greater than $3,000 in one period no longer receive compensation in Manitoba.
(31) Agricultural supplies, farm machinery and farm machinery repair parts can be purchased exempt by a farmer in Manitoba by completing a farm-use certificate.
(32) Equipment and supplies designed solely for the use of physically disabled persons or chronic invalids, and drugs dispensed on the prescription of a medical practitioner are exempt in Manitoba.
(33) The 3% rate is a Gross Receipts Tax.
(34) The 7% rate is a Gross Receipts Tax.
(35) Oil and gas services rendered at the well site of an oil or gas well in the production casing phase are taxable. Services rendered in the pre-production casing phase are exempt.
(36) Purchases made by religious and charitable organizations for fund raising purposes for the conduct of regular religious or charitable functions and activities and not in the course of any regular business are exempt from sales/use tax.
(37) Effective July 1, 2006, food for domestic home consumption is sales/use tax exempt.
(38) Investment counseling is taxable at 5%.
(39) Sales to non-profit hospitals and nursing homes, as well as to local government hospitals and nursing homes, are exempt.
(40) Coin-operated washers and dryers are exempt.

UNEMPLOYMENT INSURANCE

CURRENT LAW

Imposition

Employers are subject to the North Dakota Unemployment Compensation Law if they are subject to the Federal Unemployment Tax Act. A firm in the private sector is subject to the Unemployment Compensation Law if it employs one or more workers in each of 20 different weeks in a calendar year or has a quarterly payroll of $1,500 or more.

The requirements also apply to an employer paying $1,000 or more in wages for domestic services and an employer of agricultural labor employing 10 or more workers in 20 different weeks within a calendar year or paying cash wages of $20,000 or more in any calendar quarter.

A nonprofit organization having a 501-C-3 exemption (a federal income tax exemption covering charitable, religious and educational institutions) is subject to the law if it employs four or more workers in each of 20 different weeks in a calendar year.

Excluded from unemployment compensation coverage are: services performed by insurance or real estate salespersons paid entirely by commissions, services performed for a parent by a child under the age of 18, services performed by the parents of the employer, and services performed by the wife or husband of the employer. Corporate officers and certain limited liability company managers with a 25% ownership may be excluded by written application.

Employers not otherwise liable under the law may request unemployment compensation coverage which, if approved, is effective for a minimum of two years.

Taxes

Wage Base. For federal tax purposes, the taxable wage base is the first $7,000 of each employee's wages. For state tax purposes, the taxable wage base is 70% of the statewide average annual wage. For 2008, the taxable wage base used for the North Dakota tax is $22,100.

Rate. The employer pays the entire tax for both federal and state unemployment compensation taxes.

A newly liable employer is assigned the tax rate of 1.17% for 2008 (90% of the maximum rate in the positive account schedule) unless the employer is classified in a construction industry. The tax rate for new construction employers is 9.86% for 2008 (the maximum rate in the negative account schedule).

For other than newly liable employers, the employer's tax rate is determined by an experience-rating system, which establishes the rate on the basis of the employer's experience with the unemployment insurance program.

There are two tax rate schedules, Positive Balance and Negative Balance. The employer's lifetime reserve (contributions paid less benefits charged) determines which schedule applies. The rate an employer is assigned within the respective schedule is determined on the basis of the relationship between the employer's last 6-year reserve balance (contributions paid less benefits charged) and his or her 3-year average taxable payroll.

Employers with a positive reserve - those having paid more in contributions than their former employees have collected in benefits - are assigned a rate in the Positive Balance Schedule. For 2008, rates for these employers range from 0.20% to 1.30%.

Employers with a negative reserve – those whose former employees have collected more in benefits than the employer has paid in contributions - are assigned a rate in the Negative Balance Schedule. For 2008, rates for these employers range from 6.26% to 9.86%.

Unemployment Insurance Tax Rates are recalculated each year and are effective on January 1 of the following year.

Payments. Taxes are paid quarterly to Job Service North Dakota. Certain nonprofit organizations, government agencies, and tribal entities may choose a reimbursement method of financing under which they repay Job Service only for unemployment benefits the state paid out to the organization's former employees.

Reports from employers with more than 99 employees must be filed electronically via a method approved by Job Service North Dakota. These and other employers may file reports electronically via UI EASY which is accessible at Job Service North Dakota's web site: jobsnd.com.

Benefits

An unemployed worker may file a claim for benefits by either internet or telephone. If the claimant has sufficient wage credits in a base period, the claimant's most recent employer and all base period employers are notified that a valid claim for benefits has been filed. Employers and claimants have the right to appeal all decisions by Job Service. Claimants must meet all other eligibility requirements during each week for which they wish to draw benefits.

The minimum weekly benefit paid to a claimant is $43 per week. If the claim computes to be less than that minimum, no benefits are allowed.

The maximum weekly benefit cannot exceed 65% of the average statewide weekly wage of all covered workers. The maximum weekly benefit is computed annually and takes effect on all claims filed with an effective date on or after July 1 of each year. For the period July 6, 2008 through July 4, 2009, the maximum weekly benefit amount is $406.

Unemployed workers filing claims may be disqualified for unemployment compensation benefits if they voluntarily quit their last employment without good cause attributable to the employer; were discharged for misconduct connected with their last work; failed to apply for or accept suitable work; lost employment due to participation in a labor dispute; or failed to disclose work and earnings during a period of claim filing.

Administration

Job Service North Dakota administers the state's unemployment insurance programs.

For more information on North Dakota's Unemployment Compensation Law, contact Job Service North Dakota at: PO Box 5507, Bismarck, ND 58506-5507 or e-mail at jsuits@nd.gov or call toll-free 1-800-472-2952 or 701-328-2814 or check the web site at jobsnd.com. Persons who wish to file claims may call 701-328-4995 or go to jobsnd.com and use the UI ICE system.

HISTORICAL OVERVIEW

Significant Changes in Law

<u>2003 Session.</u>

- Provided that the 10.99% "delinquent" rate be assigned to delinquent employers, EXCEPT:
  1. Experience rated positive employers; and
  2. New positive non-construction employers, be assigned the negative employer minimum rate (presently 6.49% of taxable wages).
- Prohibited collateral attacks on Unemployment Insurance (UI) decisions which have become final (by virtue of failure to appeal or following an appeal).
- Provided that JSND is not required, at a hearing in which a base period employer is challenging being charged, to call or subpoena either the claimant or the claimant's last or most recent employer.
- Provided that "supplemental unemployment compensation" payments provided by an employer can be considered nontaxable for UI tax purposes, AND are not considered wages for UI benefits qualifications purposes, if the payments are made pursuant to a plan that meets the statutorily defined eight requirements.
- Required employing units to keep certain records, and authorized inspection "by employees of job service North Dakota" assigned responsibility to inspect and report on the information in the records for the purpose of determining the amounts of wages paid, the number of employees, wage expenditures, and such other information as may be necessary to carry out the UI law. Records are defined to include electronic records. Refusal to submit records to inspection is subject to a civil penalty of "five hundred dollars for each offense."
- Allows noncharging of base period employers' accounts when, during the base period, the claimant voluntarily quit or was discharged for misconduct by the base period employer.
- Allows base period employers who are currently employing a claimant part-time, and who have not changed the claimant's hiring agreement, not to have their accounts charged with benefits paid to the claimant.
- Changed the deadline for sending out tax rate notices from December 1 to the end of the first full week in December, but no later than December 10.
- An owner/claimant will be considered to have "ceded" his business. A business will be considered "ceded" for the purpose of determining the claimant's monetary eligibility in four circumstances cited in the statute.

2005 Session.

- Continued the UI tax calculation based on moving toward an annually calculated solvency target for the UI Trust Fund. When the target is calculated, the tax rate must be set so that one-fifth of the difference between the Trust Fund balance and the target is made up during that tax year. Additionally, the bill requires that the amount required to reach required solvency is calculated so that the underlying rates necessary to raise the revenue to pay benefits during that tax year be multiplied by a ratio to reach the necessary amount to hit the solvency target, whether positive or negative. Thus, if the target is higher than the Trust Fund balance, the negative balance employers will pay more of the amount necessary to move towards solvency than will the positive balance employers.
- Created an 8-member Unemployment Insurance Advisory Council appointed by the Governor.
- Amended three current sections of Chapter 52-04 (UI tax code—Sections 52-04-10; 52-04-11.1[3]; and 52-04-17) to provide that an employer cannot demand a hearing before JSND has rendered a decision.
- Exempted aliens in the country under Section 101(a)) 15)(H)(ii)(A) of the Immigration and Nationality Act (H2A aliens) from coverage as employees. In other words, farmer-employers will not have to report or pay UI taxes on H2A aliens working for them.
- Provided that Job Service is to receive notice of school district dissolution and reorganization; and that reorganizing or dissolving districts are to set aside funds with the county auditor or the North Dakota School Boards Association to cover the amount calculated by JSND as potential liability for claims of the terminating school district.
- Amended statute to prevent SUTA (State Unemployment Tax Act) dumping which is the practice by which an employer takes steps to manipulate the situation so that the employer pays UI taxes, directly or indirectly, at a tax rate lower than the employer's assigned experience rate. All employers which have North Dakota Unemployment Insurance (UI) tax accounts, including employers which are Professional Employer Organizations (PEOs).
- The general provisions applicable to all employers are:
  1. If an employer acquires all or part of the business or workforce of another employer, and continues the same business as the transferring employer, the receiving employer may request the predecessor's UI experience rate, unless Job Service (JSND) finds that the transaction was "solely or primarily" for SUTA dumping.
  2. If an employer acquires all or part of the business or workforce of another employer, and, at the time of the acquisition, there was common ownership, management or control, JSND must transfer the predecessor's UI experience to the successor. If, following a transfer such as described in this subparagraph JSND discovers that a "substantial purpose" of the transfer was to SUTA dump, then the two employers' experience rates are to be combined into a single account, and a single UI tax rate is to be assigned to that account.
  3. If a person who is not an employer acquires the business or workforce of an employer, the experience rate of the acquired business may not be transferred to the receiving person if JSND finds that the transfer occurred "solely or primarily" for the purpose of SUTA dumping.
  4. If a person knowingly SUTA dumps, in the manner listed in 1-3 above, that person is subject to assignment of a penalty UI tax rate at least 2% higher than the currently assigned rate for the remainder of the current rate year and for 3 following rate years. If a person advises a business to SUTA dump that person is subject to a civil penalty of up to $25,000.
  5. In addition to the civil penalties, a person who knowingly violates, or attempts to violate, the section containing the federally-required SUTA dumping prohibitions will be guilty of a Class C Felony.
- Provisions applicable to PEOs:
  PEOs must furnish the Unemployment Insurance program a copy of their contracts with clients within 15 days after execution, and must report and pay UI taxes at their clients' rates unless:
  1. The client's UI tax rate at the time of contracting was equal to or lower than the PEO's rate; or
  2. The client's rate at the time of contracting was higher and the PEO contract requires the client to make a voluntary contribution to buy the rate down to the PEO rate, and the client actually makes that voluntary contribution; or
  3. The client's rate is higher but the differential between rates will have a negative quarterly impact on the fund of $500 or less.
- Finally, the Bill proposed a Legislative Council study of licensure or registration of PEOs.
- Directed a Legislative Council study of the possibility of limiting the number of job-attached UI claimants, and funding the costs of that action. JSND is to participate in the study.
- Ended the requirement to deduct a portion of Social Security retirement benefits from Unemployment Insurance weekly benefits, effective August 1, 2005.
- Appropriated $254,925 in Reed Act funds for the WorkFirst reemployment demonstration project and authorized the Agency to operate the WorkFirst demonstration project and to select a random sample of UI claimants to take part in the project, and to

run the project at fewer than all of its local office sites. Appropriated $535,000 in Reed Act funds for UI computer system modernization procurement planning and authorized JSND to determine UI system modernization requirements, issue an RFP based on those requirements, and to make an appropriation request to the 60th Legislative Assembly for the funds necessary to build the new system.

- Appropriated $20,000 from the General Fund, plus another $20,000 in private matching funds to JSND to run a "shared work" pilot project from January 1, 2006 through June 30, 2007.
- Ended the statutory requirement that Job Service be subject to a biennial performance audit.
- Allowed Job Service to share UI claimant information with the Drivers' License Division of the Department of Transportation.
- Repealed the provision requiring Job Service to republish the UI statutes after each legislative session.
- Amended current law to provide that base period employers' Unemployment Insurance accounts would not be charged if the claimant had quit or been discharged by that employer either during or after the base period.
- Amended subsection 1 of section 52-06-02 to provide that if a claimant left employment due to illness or injury and pursuant to a doctor's orders, with certain other prerequisites, the account of the separating employer is not to be charged with the benefits paid in that circumstance, UNLESS that employer is a reimbursing employer.
- Amended subsection 6 of section 52-06-02, which currently describes the disqualification from benefits that is imposed on a student who is "registered for full attendance at and is regularly attending" school.
- Removed services performed as a member of Americorps from the definition of employment, thus exempting "wages" paid to those "volunteers" from UI taxation.

2007 session.

- Created a statute which requires employers with more than 99 employees to file contribution and wage reports via an electronic method approved by Job Service North Dakota. This section also requires payers making payments on behalf of more than one employer to make those payments electronically.
- Enacted legislation that provided for a minimum multiplier of 100% for all rates within the negative tax rate structure. The statute impacts negative balance employers (those whose benefit charges have exceeded their contributions). It does not allow these employers to share in the benefit of a reduction in tax rates made for the purpose of reducing the amount of money retained in the UI Trust Fund.
- Amended a section of Chapter 52-04 (52-04-06.1), to exclude "design and engineering" firms from the calculation of the amount of the required bond or letter of credit. The legislation also modified the formula used for calculating the amount of the required bond or letter of credit.
- Enacted legislation concerning the calculation of tax rates for positive balance employers. This law provides for the assignment of employers paying 60% of the wages within the lowest rate category. Also impacted were the calculations to determine the gap between the highest positive rate category and the lowest negative rate category as well as the calculation to determine the tax rates for new employers.
- Amended a section of Chapter 52-04 (52-04-22), to provide for use of monies in the Federal Advance Interest Repayment (FAIR) fund for the purposes of reemployment programs to ensure the integrity of the unemployment insurance program in North Dakota.

Unemployment Insurance Benefit Payments
For A Calendar Year
$ Millions

Calendar Year	Benefit Payments
1998	33.2
1999	38.2
2000	38.8
2001	42.5
2002	45.5
2003	44.6
2004	38.3
2005	38.5
2006	40.2
2007	43.1
2008 (estimate)	46.3

SOURCE: Job Service North Dakota

Average North Dakota Employer Tax Rate and Unemployment Insurance Tax Revenue

Calendar Year	Average Employer Tax Rates		Tax Revenue
	Percent of Total Wages	Percent of Taxable Wages	
1998	0.60%	1.10%	29,699,093
1999	0.62%	1.12%	32,313,656
2000	0.69%	1.26%	38,043,573
2001	0.71%	1.28%	40,413,437
2002	0.72%	1.31%	41,809,970
2003	0.87%	1.60%	53,118,506
2004	0.88%	1.63%	57,502,415
2005	0.82%	1.51%	57,096,849
2006	0.73%	1.35%	55,035,648
2007	0.65%	1.19%	52,373,337
2008 (est.)	0.51%	0.95%	44,569,000

SOURCE: Job Service North Dakota

WORKFORCE SAFETY & INSURANCE

CURRENT LAW

Imposition

The intent of the workers' compensation program is to take care of injured workers' medical bills; provide wage-loss, impairment and rehabilitation payments; and in the case of death, provide monthly payments to spouses and dependents. A properly insured employer is immune from lawsuits for an on-the-job injury of an employee.

Employers must include all employees, except those specifically exempted by law, in the workers' compensation insurance program. Exclusions include farm and ranch workers, domestic workers, clergy, federal employees, railroad employees, newspaper delivery people, and real estate brokers and salespeople who operate under a signed contract as an independent contractor. Coverage is optional for employers, resident family members under the age of 22, the spouse of an employer, and self-employed individuals.

Premiums

In North Dakota, workers' compensation insurance is financed through premiums paid by employers. These premiums are among the lowest in the nation. Premiums for each employer are calculated using payrolls, industry-based premium rates, and loss history.

Employers report their payroll to Workforce Safety & Insurance (WSI) on an annual basis, according to the effective date on the employer's account. The amount of payroll used to calculate the premium for each worker is limited to 70% of the state's average annual wage. This "wage cap" was $22,100.00 as of July 1, 2008. Premium rates are set for 141 industry classifications based on industry loss experience. Premium costs up to the cap per employee range from 29 cents per $100 of payroll for bank employees to $32.51 per $100 of payroll for specialized aircraft operations (crop sprayers), which is one of the highest classifications. In 2005, WSI created a performance-based program (RMP+) that gives employers the opportunity to receive a premium discount if they meet specific claim frequency and severity rates or remain loss free during the reporting period. Employers are automatically enrolled in the RMP+ (excluding retrospective rates accounts, deductible accounts and minimum premium accounts). Employers are then eligible for discounts of up to 15% based upon each employer's reductions in the frequency (total number of claims) and the severity (total number of days lost from work directly related to an injury) of their claims from the previous year (baseline).

The 15% discount is achieved by:

1. 5% for reducing the claim frequency rate by 10%;
2. 5% for reducing the claim severity rate by 10%; and
3. an additional "bonus" of 5% for reducing both rates.

Benefits

An injured worker is responsible for filing a claim. They must do so within one year of the date of the injury to be eligible to receive disability benefits for the time they are unable to work because of the injury and medical benefits for the life of the injury. Any injury/disability must be substantiated by medical evidence.

An injured worker's medical treatment is monitored through a managed care program and is subject to a medical fee schedule. WSI reimburses the injured worker for "reasonable and necessary" medical treatment. Wage-loss benefits for a worker disabled for at least five days are based on 66 2/3% of the worker's gross weekly wage, not to exceed 110% of the state's average weekly wage. On July 1, 2008 the state's maximum weekly benefit was $689. Additional weekly allowances of $10 are paid on each child under age 18 or incapable of self-support, or age 18 to 22 if a full-time student. Workers with medical restrictions are evaluated through a workability assessment to determine ability to return to work and eligibility for rehabilitation benefits, which may include formalized training. Workers who suffer permanent loss of use of a body part may qualify for a lump sum "permanent partial impairment" payment.

WSI pays death benefits to the survivors of workers killed in work-related accidents. Benefits are paid to the eligible spouse of the dependents of the deceased worker at a rate of two-thirds of a deceased worker's gross weekly wage, up to 110% of the state's average weekly wage. They will also be paid $10 per week for each dependent child. Additionally, the surviving spouse receives a one-time death benefit of $1,200, plus $400 for each dependent child. There are also scholarships available for dependents and spouses. WSI pays all medical bills related to the compensable injury and death of a worker, including up to $6,500 for funeral expenses. Total benefits may not exceed $250,000 over the lifetime of a claim.

Dispute Resolution

The Office of Independent Review helps workers and employers on claims issues and serves as a litigation alternative. Injured workers may appeal WSI decisions of benefit claims by requesting an administrative hearing. Subsequent appeals may be made to District Court and then on to the Supreme Court. WSI pays the injured worker's attorney fees only if the worker wins the appeal and only if the worker sought assistance from the Office of Independent Review before appealing. Attorney fees may not exceed 20% of the amount in dispute.

Fraud

A Special Investigations Unit within WSI investigates workers, employers, and medical providers suspected of committing fraud. Anonymous tips about suspected fraud can be made through a toll-free telephone number, 1-800-243-3331 or by completing a form through the WSI website at www.WorkforceSafety.com.

Administration

WSI administers the state's workers compensation program. For more information on Workforce Safety & Insurance, write to Workforce Safety & Insurance, 1600 East Century Avenue, Suite 1, Bismarck, ND 58503-0649, call (701)328-3800, or call the HelpLine 1-800-777-5033.

HISTORICAL OVERVIEW

Significant Changes in Law

1991 Session.

- The legislature created binding arbitration as an alternative dispute resolution process, mandated a managed care program and use of a third party administrator to monitor injured workers' medical care, and mandated that North Dakota Workers' Compensation (NDWC) adopt a hospital and medical fee schedule.
- Employers were required to reimburse NDWC up to the first $250 of medical expenses for each claim.
- The wage base for computing the premium was changed from $3,600 to 70% of the state's average annual wage.

1993 Session.

- The legislature created a system of binding dispute resolution for disputes arising out of NDWC's managed care program.
- The legislature approved a risk management program which allowed employers a 5% discount on annual premiums if they designed and implemented a NDWC approved safety program.
- Suspension of benefits was allowed if an employee applied for benefits in another state for the same injury.
- An "other states" coverage program was established regarding payments of benefits to North Dakota-covered workers whose injury, disease, or death occurred in another state.

1995 Session.

- Workers were required to report injuries to their employers within seven days.
- NDWC was allowed to use failure to report an injury as a factor in determining claims.
- Employers with approved risk management programs were allowed to choose medical providers. If a worker wants to choose the provider, the worker must notify the employer in writing before an injury occurs.
- The legislature revoked wage-loss and rehabilitation benefits for workers who do not comply with rehabilitation plans.
- Wage-loss benefits were stopped when injured workers become eligible for Social Security Retirement benefits.
- Permanent Partial Impairment (PPI) compensation was limited to workers with over 15% whole body impairments.
- A workers' adviser program was set up to serve as a litigation alternative and to help injured workers' compensation process.
- NDWC was authorized to set up a special fraud unit. Fraud involving over $500 was changed from a class A misdemeanor to a class C felony. Attorney fees may no longer exceed 20% of the amount a claimant receives nor may they be paid by NDWC if the claimant loses.

1996 Referred and Initiated Measures.

- Voters in the June 1996 primary election upheld the changes made by the 1995 legislature.

1997 Session.

- The 1997 legislature changed the law to increase certain benefits, streamline claims processes, enhance system

efficiency, further restrict the potential for fraud, reduce litigation and adjust earlier reforms.
- The legislature also placed NDWC within the oversight of a board of directors made up of NDWC constituents appointed by the Governor. NDWC continues to be managed by an executive director who reports directly to the board. This law also mandated that independent, qualitative performance audits be conducted by workers' compensation industry experts every two years with the results being presented to the legislature.

1999 Session.
- The 1999 legislature substantially increased cash benefits for the severly impaired, increased the maximum disability benefit (making North Dakota's maximum benefit rate one of the highest in the country), shortened the eligibility period for supplemental benefits, and increased the size of scholarships available to dependents of workplace fatality victims.
- Another major piece of 1999 legislation provides authority for NDWC to issue grants to high risk industries for prevention of workplace accidents.
- Additionally, the bill allows NDWC to offer dividends, deductibles, group insurance and other products that give employers direct financial incentives for protecting the safety of their workers.

2001 Session.
- Authorized the construction of a new building in north Bismarck to house NDWC and required NDWC to include rental space for other state agencies.
- Provided incentives for employers to hire previously injured workers in positions that will accommodate the worker's restrictions resulting from a work injury (the program was subsequently named, "The Preferred Worker Program").
- 2001 legislation also prohibited an employer from requiring an employee to use accrued personal leave for time off work for a work-related disability; increased awards for certain impairment; provided that an employee may be found guilty of fraud for making false statements to get a claim or benefit paid; and repealed the sunset clause on the scholarship fund for children of workers killed on the job.

2003 Session.
- Legislation changed the organization's name to Workforce Safety & Insurance (WSI); increased lifetime death benefits from $197,000 to $250,000; and allowed for the limited release of information on the status of an employer's account.
- Legislation also changed the make-up of the WSI Board of Directors, shortened the terms from 6 to 4 years and made the medical member a voting member and added an at-large member.
- Other legislative changes included removing the re-marriage penalty for death benefit recipients; and increasing the amount of money to $50,000 for WSI to spend on home and vehicle modifications for the catastrophically injured.

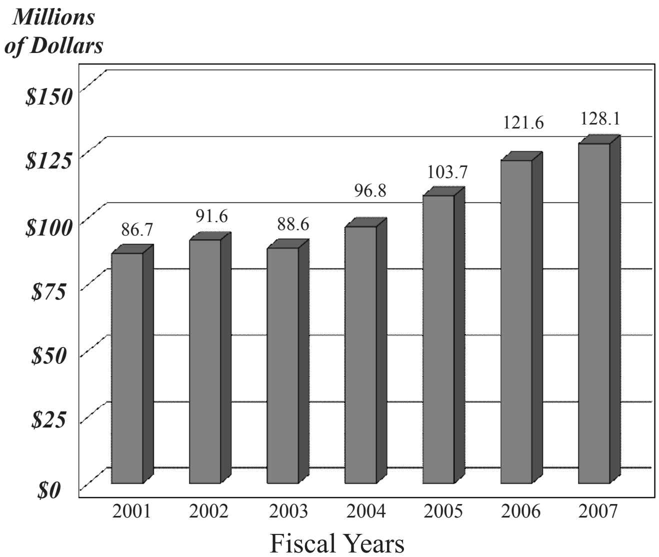
2005 Session.
- Legislation provided additional safety incentives and established continuing appropriation authority to fund safety education, grant and incentive programs from the fund's surplus.
- Also, provided employers an incentive for early claim filing by waiving the first $250 of medical costs if the claim is filed by midnight on the following WSI business day; dedicated $15 million of WSI's fund surplus to establish an educational revolving loan fund to help injured workers take out college loans for an approved education plan when they don't qualify for a WSI vocational retraining program.
- Legislation also increased the amount of the non-dependency death benefit from $2,000 to 5% of the cap on death benefits ($12,500), the cap is currently $250,000; provides the option for an injured worker to choose to pursue a retraining program or opt for up to five years of partial disability benefits.
- In addition, legislation changed the definition of what constitutes when a worker is declared to be Permanently and Totally Disabled, thus, moving from a subjective definition to an objective standard in the law.
- Legislative changes increased the maximum dollar amount for Guardian Scholarships from $3,000 to $4,000 per year for up to 5 years for spouses and dependent children of a worker who died as a result of a compensable work-related injury, and increased the maximum amount of scholarships that can be awarded annually from $150,000 to $300,000.

2007 Session.
- Legislation provided funds for the purchase or adaptation of specially equipped motor vehicles for the catastrophically injured, not to exceed $100,000 for the life of the claim; provided an alternative Additional Benefit Payable (ABP) calculation for a select group of permanent total disability recipients whose injuries occurred prior to August 1, 1995.
- Legislation expanded the population that is potentially eligible for death benefits to include the surviving

spouse of the catastrophically injured if the disability has continued until the time of death; the death occurs more than six years after the date of the injury and the death was the direct result of the work injury.

- Also, expanded the eligibility pool of WSI's revolving loan fund to include surviving spouses and dependent children of an injured worker whose death resulted from a compensable injury and sets a maximum interest rate of 1% below the Bank of North Dakota's prime interest rate.
- Legislation shortened the period for supplementary benefit eligibility from 7 years to 3 years for Permanent Total Disability claims subject to 2005 HB 1171 (Claims files after December 31, 2005); and clarified the definition of Permanent Partial Impairment Awards to attempt to prohibit an offset by Social Security and makes the award schedule based on a multiplier amount rather than weeks.
- An annual lump-sum inflationary adjustment was provided for long-term temporary partial disability cases.
- Legislation also provided that a coordinating committee appointed by the Governor and composed of representatives of business associations would submit a list of three potential candidates for the six employer Board positions when there are vacancies. The Governor may reject the list of three candidates names. Board members may serve no more than two consecutive four year terms.
- Other legislative changes were passed that allowed WSI to reveal those employers who are in a delinquent or uninsured status; replaced the existing 75% experience rate surcharge cap with an unlimited cap; and clarified language to accommodate the move from documentation-based to results-based risk management programs.

Earned Premium
Workforce Safety & Insurance



SOURCE: Workforce Safety & Insurance

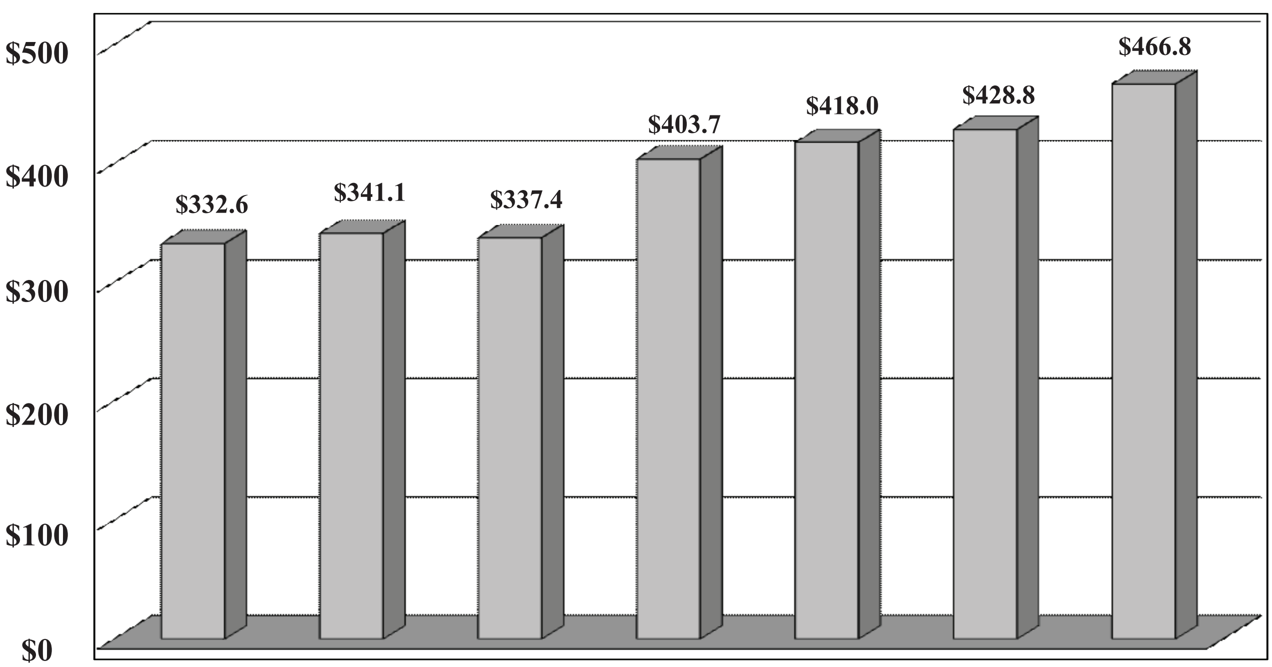
North Dakota Workers Compensation Premiums
Example of Low (Clerical) and High (Iron or Steel Construction)

Maximum Per Employee Charge

Year	Clerical	Iron or Steel Construction
1996	52.82	4,235.33
1997	49.70	4,037.06
1998	48.84	3,842.08
1999	49.92	3,948.36
2000	54.74	4,066.86
2001	52.70	3,420.40
2002	53.94	3,500.88
2003	55.80	3,621.60
2004	62.90	3,984.90
2005	75.66	4,386.34
2006	89.32	4,624.34
2007	95.85	4,076.82

SOURCE: Workforce Safety & Insurance

Workforce Safety & Insurance Fund Surplus



FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
$332.6	$341.1	$337.4	$403.7	$418.0	428.8	466.8

SOURCE: Workforce Safety & Insurance

Workers' Compensation Premium Rate Per $100 of Payroll

Rank	State	Index Rate
1	Alaska	3.97
2	Montana	3.50
3	Ohio	3.32
4	Vermont	3.14
5	New Hampshire	3.06
6	Maine	3.04
7	Delaware	2.96
8	Kentucky	2.96
9	Alabama	2.90
10	Oklahoma	2.89
11	Illinois	2.79
12	Louisiana	2.76
13	South Carolina	2.74
14	California	2.72
15	Pennsylvania	2.68
16	New Jersey	2.66
17	Texas	2.61
18	Nevada	2.58
19	New York	2.55
20	Connecticut	2.46
21	Tennessee	2.44
22	North Carolina	2.43
23	Minnesota	2.33
24	Mississippi	2.33
25	Georgia	2.29
26	Rhode Island	2.26
27	Florida	2.20
28	Missouri	2.20
29	District of Columbia	2.16
30	New Mexico	2.15
31	Michigan	2.15
32	Nebraska	2.15
33	Wisconsin	2.12
34	Idaho	2.12
35	Hawaii	2.08
36	South Dakota	2.08
37	Wyoming	2.06
38	Washington	1.98
39	Oregon	1.88
40	West Virginia	1.86
41	Iowa	1.86
42	Kansas	1.77
43	Colorado	1.76
44	Maryland	1.72
45	Arizona	1.67
46	Utah	1.63
47	Arkansas	1.61
48	Virginia	1.43
49	Massachusetts	1.39
50	Indiana	1.23
51	**NORTH DAKOTA**	**1.08**

Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discounts and dividends.

SOURCE: Research and Analysis Section, Oregon Department of Consumer & Business Services 2008.

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