

**FIRST ENGROSSMENT
with Conference Committee Amendments****ENGROSSED HOUSE BILL NO. 1108**

Introduced by

Natural Resources Committee

(At the request of the Tax Commissioner)

1 A BILL for an Act to create and enact five new sections to chapter 57-34 of the North Dakota
2 Century Code, relating to the audit and assessment of telecommunications carriers, deficiency
3 notice, protest and appeal procedure, claim for credit or refund of the tax on
4 telecommunications carriers, preservation of records, and resale certificates; to amend and
5 reenact sections 57-34-01, 57-34-02, 57-34-03, 57-34-06, and 57-34-10 of the North Dakota
6 Century Code, relating to definitions, identification of taxable resellers and pay telephone
7 operators, elimination of tentative assessments, allocation of revenue, filing extensions, tax
8 liabilities of less than five dollars, and interest and lien provisions; to amend and reenact the
9 new section to chapter 49-21 of the North Dakota Century Code as created by section 1 of
10 House Bill No. 1050, as approved by the fifty-sixth legislative assembly, relating to a regulatory
11 reform review commission study; to provide for retroactive application; to provide an effective
12 date; and to provide an expiration date.

13 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

14 **SECTION 1. AMENDMENT.** The new section to chapter 49-21 of the North Dakota
15 Century Code as created by section 1 of House Bill No. 1050, as approved by the fifty-sixth
16 legislative assembly, is amended and reenacted as follows:

17 **Regulatory reform review commission - Appointments - Compensation - Report**
18 **to legislative council.** The regulatory reform review commission shall review the operation
19 and effect of North Dakota telecommunications law on an ongoing basis during the interims
20 between the 1999 and 2003 legislative sessions and shall submit a report regarding its
21 operation and effect to the legislative council in 2000 and 2002. During the 1999-2000 interim,
22 the regulatory reform review commission shall study the provisions of the gross receipt tax in
23 this state and examine the manner in which internet access service providers are taxed. The
24 regulatory reform review commission shall report its findings and recommendations, together

1 with any legislation necessary to implement the recommendations, to the fifty-seventh
2 legislative assembly. The regulatory reform review commission may review the effects of
3 federal universal service support mechanisms on telecommunications companies and
4 consumers in this state and may review the preservation and advancement of universal service
5 in this state, consistent with the Communications Act of 1934 [47 U.S.C. 151 et seq.], as
6 amended by the Telecommunications Act of 1996 [Pub. L. 104-104; 110 Stat. 56] during these
7 interims and may include any findings and recommendations in its reports to the legislative
8 council. The regulatory reform review commission consists of one member of the public
9 service commission who has responsibility for telecommunications regulation, two members of
10 the senate, appointed by the president of the senate, and two members of the house of
11 representatives, appointed by the speaker. The chairman of the legislative council shall
12 designate the chairman and vice chairman of the regulatory reform review commission from the
13 legislative members of the commission. The public service commission shall provide technical
14 assistance and the legislative council shall provide staff services to the regulatory reform review
15 commission. The legislative members of the regulatory reform review commission are entitled
16 to the same compensation as provided for members of committees of the legislative council.
17 The legislative council shall pay the compensation for the legislative members of the regulatory
18 reform review commission. The public service commission shall pay the expenses of the
19 member of the public service commission serving on the regulatory reform review commission
20 and the public service commission staff providing technical assistance while carrying out their
21 duties.

22 **SECTION 2.** A new section to chapter 57-34 of the North Dakota Century Code is
23 created and enacted as follows:

24 **Tax commissioner to audit returns and state board of equalization to assess tax.**

25 The tax commissioner shall proceed to audit the returns of telecommunications carriers not
26 later than three years after the due date of the return, or three years after the return was filed,
27 whichever period expires later. The state board of equalization shall assess the tax and, if any
28 additional tax is found due, the tax commissioner shall notify the taxpayer in detail as to the
29 reason for the increase.

30 **SECTION 3.** A new section to chapter 57-34 of the North Dakota Century Code is
31 created and enacted as follows:

1 **Deficiency, protest, and appeal.**

- 2 1. When tax is understated on a return because of a mathematical or clerical error,
3 the tax commissioner shall notify the telecommunications carrier of the error and
4 the amount of additional tax due. This notice is not a notice of deficiency and the
5 telecommunications carrier has no right to protest.
- 6 2. If upon audit the tax commissioner finds additional tax due, the tax commissioner
7 shall notify the telecommunications carrier and the state board of equalization of
8 the deficiency in the tax amount. A notice of deficiency must be sent to the
9 telecommunications carrier by first-class mail and must state the amount of
10 additional tax due and set forth the reasons for the increase.
- 11 3. A telecommunications carrier has thirty days from the date of mailing of the notice
12 of deficiency to file a written protest with the state board of equalization objecting
13 to the assessment of additional tax due. The protest must set forth the basis for
14 the protest and any other information that may be required by the state board of
15 equalization. If a telecommunications carrier fails to file a written protest within the
16 time provided, the amount of additional tax stated in the notice of deficiency
17 becomes finally and irrevocably fixed. If a telecommunications carrier protests
18 only a portion of the tax commissioner's finding, the portion that is not protested
19 becomes finally and irrevocably fixed.
- 20 4. If a protest is filed, the state board of equalization shall reconsider the assessment
21 of additional tax due.
- 22 5. Within six months after the protest is filed, the state board of equalization shall mail
23 to the telecommunications carrier a notice of reconsideration and assessment
24 which must respond to the telecommunications carrier's protest and assess the
25 amount of any additional tax due. The amount set forth in that notice becomes
26 finally and irrevocably fixed unless the telecommunications carrier brings an action
27 against the state in district court within six months of the mailing of the notice of
28 reconsideration and assessment.

29 **SECTION 4.** A new section to chapter 57-34 of the North Dakota Century Code is
30 created and enacted as follows:

31 **Claims for credit or refund.**

- 1 1. A telecommunications carrier may file a claim for credit or refund of an
2 overpayment of any tax imposed by this chapter within three years after the due
3 date of the return or within three years after the return was filed, whichever period
4 expires later.
- 5 2. A claim for credit or refund must be made by filing with the tax commissioner an
6 amended return, or other report as prescribed by the tax commissioner,
7 accompanied by a statement outlining the specific grounds upon which the claim
8 for credit or refund is based.
- 9 3. The tax commissioner shall notify the telecommunications carrier if the state board
10 of equalization disallows all or part of a claim for credit or refund. The decision of
11 the state board of equalization denying a claim for credit or refund is final and
12 irrevocable unless the telecommunications carrier brings an action against the
13 state in district court within six months of the mailing of the notice denying the
14 claim for credit or refund.

15 **SECTION 5.** A new section to chapter 57-34 of the North Dakota Century Code is
16 created and enacted as follows:

17 **Preservation of records.** Every telecommunications carrier required to make a return
18 and pay any tax under this chapter shall preserve records of the gross proceeds of sale as the
19 commissioner may require and every carrier shall preserve for a period of three years and three
20 months all invoices and other records of telecommunications services purchased for resale. All
21 of these books, invoices, and other records must be open to examination at any time by the
22 commissioner or any duly authorized agent of the commissioner.

23 **SECTION 6.** A new section to chapter 57-34 of the North Dakota Century Code is
24 created and enacted as follows:

25 **Resale certificates.** A telecommunications carrier who receives a resale certificate
26 certifying that another telecommunications carrier holds a North Dakota sales and use tax
27 permit for sales or use tax purposes under section 57-39.2-14 is relieved from submitting the
28 telecommunications gross receipts tax upon the sale of telecommunications services to be
29 resold by the telecommunications carrier submitting the certificate. When a
30 telecommunications carrier submits a false resale certificate to another telecommunications
31 carrier, the telecommunications carrier that submitted the certificate is liable for the

1 telecommunications gross receipts tax on the sale. A hospital, hotel, motel, or similar place of
2 temporary accommodation selling telecommunications service to its patients or guests is not a
3 telecommunications carrier under this section.

4 **SECTION 7. AMENDMENT.** Section 57-34-01 of the 1997 Supplement to the North
5 Dakota Century Code is amended and reenacted as follows:

6 **57-34-01. Definitions.** The definitions in this section may not be construed to subject
7 a telecommunications carrier or telecommunications service to the provisions of title 49. As
8 used in this chapter, unless the context or subject matter otherwise clearly requires:

- 9 1. "Adjusted gross receipts" means telecommunications carrier gross receipts less all
10 amounts paid by the reporting telecommunications carrier on telecommunications
11 service that is taxable under this chapter in state and local sales and use taxes
12 and federal excise taxes and less amounts paid by the reporting
13 telecommunications carrier to another telecommunications carrier for directory
14 assistance originated by a caller in this state.
- 15 2. "Company" includes any individual, copartnership, business trust, corporation,
16 limited liability company, joint-stock company, association, or any other
17 organization.
- 18 ~~2.~~ 3. "Gross receipts" means all telecommunications carrier retail revenues from
19 telecommunications service charges billed to any station in this state and from
20 charges to another telecommunications carrier for directory assistance originated
21 by a caller in this state.
- 22 ~~3.~~ 4. "Station" means a subscriber service address located in this state with a distinct
23 call number designation or distinct extension number designation. If this is not a
24 defined location, "station" means the location of the primary use of
25 telecommunications equipment as determined by telephone number, authorization
26 code, or billing address.
- 27 4. ~~5.~~ "Telecommunications carrier" means a ~~person~~ company that is engaged in the
28 business of furnishing telecommunications service within this state. The term
29 includes a reseller of telecommunications service.

- 1 1. Each telecommunications carrier that received intercarrier telecommunications
2 revenue in the preceding calendar year shall make and file with the tax
3 commissioner, on or before January fifteenth of each year, a list containing the
4 name and mailing address of each telecommunications carrier from which the
5 reporting telecommunications carrier received intercarrier telecommunications
6 revenue in the preceding calendar year. This list is to be filed in addition to the
7 report required by subsection 3.
- 8 2. Each telecommunications carrier that provided telecommunications service in the
9 preceding calendar year to one or more pay telephones owned by another
10 company shall make and file with the tax commissioner, on or before January
11 fifteenth of each year, a list containing the name and mailing address for each
12 company that owned a pay telephone served by the reporting telecommunications
13 carrier in the preceding calendar year. This list is to be filed in addition to the
14 report required by subsection 3.
- 15 3. Each telecommunications carrier subject to gross receipts taxes under this chapter
16 shall make and file with the tax commissioner, on or before May first of each year,
17 on the form as the tax commissioner may prescribe, a report containing a
18 statement of its gross receipts in this state during the preceding calendar year,
19 amounts paid by the carrier on telecommunications service that is taxable under
20 this chapter during the preceding calendar year in state and local sales and use
21 taxes and federal excise taxes, amounts received from or paid to another
22 telecommunications carrier for directory assistance, and any other information as
23 the tax commissioner may require. The form must include a notice of a
24 telecommunications carrier's right to appeal its assessment to the state board of
25 equalization prior to or at the August meeting of the state board of equalization.
26 Each report must be signed, subject to section 12.1-11-02, by the president,
27 secretary, or other official of the telecommunications carrier.

28 **SECTION 9. AMENDMENT.** Section 57-34-03 of the 1997 Supplement to the North
29 Dakota Century Code is amended and reenacted as follows:

30 **57-34-03. Computation of taxes by tax commissioner - Exemption for**
31 **high-volume customers - Continuing appropriation.**

- 1 1. On or before July fifteenth of each year, the tax commissioner shall review the
2 report under subsection 3 of section 57-34-02 and compute the ~~tentative~~ total tax
3 to be assessed against each telecommunications carrier in this state at a rate of
4 two and one-half percent of adjusted gross receipts. ~~The~~ If the tax commissioner's
5 computation of the total tax differs from the amount computed by a
6 telecommunications carrier, the tax commissioner shall give ten days' notice of the
7 change by mail to each that telecommunications carrier of its tentative total tax
8 under this section and of its right to contest the determination before the state
9 board of equalization at its August meeting on or before July fifteenth. The state
10 board of equalization shall assess the tax under this section after consideration of
11 any contest presented.
- 12 2. A telecommunications carrier's retail customer in this state is entitled to a refund
13 equal to two and one-half percent of the amount of telecommunications service
14 charges paid to telecommunications carriers by that customer in excess of eight
15 hundred thousand dollars in a calendar year. A refund claim under this subsection
16 must be filed with the tax commissioner before July first of the year following the
17 calendar year for which the refund is claimed. A claim for refund must be made in
18 the manner prescribed by the tax commissioner. Refunds under this subsection
19 must be paid by the tax commissioner from tax collections under this chapter and
20 are appropriated as a standing and continuing appropriation to the tax
21 commissioner for that purpose.

22 **SECTION 10. AMENDMENT.** Section 57-34-06 of the 1997 Supplement to the North
23 Dakota Century Code is amended and reenacted as follows:

24 **57-34-06. Duties of county treasurer.** The county treasurer shall allocate taxes
25 received under this chapter to the state, the county, and the various taxing districts within the
26 county according to the proportion that taxes paid by telecommunications carriers in locally
27 assessed property taxes and taxes assessed under chapter 57-06 and this chapter in 1997 and
28 received by the state, the county, and each currently existing taxing district in the county bears
29 to all taxes paid by telecommunications carriers in locally assessed property taxes and taxes
30 assessed under chapter 57-06 and this chapter in 1997 and received by the state, the county,
31 and all taxing districts in the county.

1 **SECTION 11. AMENDMENT.** Section 57-34-10 of the 1997 Supplement to the North
2 Dakota Century Code is amended and reenacted as follows:

3 **57-34-10. Penalties - Interest - Lien for tax.**

- 4 1. If a telecommunications carrier refuses or neglects to make the reports required by
5 this chapter, or refuses or neglects to furnish any information requested, the tax
6 commissioner shall use the best available facts and estimates to determine
7 taxation of the gross receipts of that carrier. The tax must be imposed upon the
8 basis of that information,~~and. If any company fails to make the report required~~
9 ~~under this chapter on or before the first day of May of any year, the state board of~~
10 equalization shall add a penalty of one-quarter of the tax due for failure to make
11 the required report which must be collected as a part of the tax, ~~but the tax~~
12 ~~commissioner, upon application, may grant extensions of time within which the~~
13 ~~returns must be filed.~~
- 14 2. Taxes levied under this chapter are due and payable to the tax commissioner on
15 January first following the year in which the taxes were assessed. ~~The unpaid~~
16 ~~principal balance of taxes on the following March first is subject to a penalty of~~
17 ~~three percent, on the following May first an additional penalty of three percent, on~~
18 ~~the following July first an additional penalty of three percent, and on the following~~
19 ~~October fifteenth an additional penalty of three percent. Beginning January first of~~
20 ~~the year following the year the taxes became due, simple interest at the rate of~~
21 ~~twelve percent per annum applies to the unpaid principal balance until the taxes~~
22 ~~and penalties are paid. Interest penalties must be prorated to the nearest full~~
23 ~~month for a fractional year of delinquency. A remittance of tax need not be made~~
24 ~~and any assessment or collection of tax may not be made unless the amount is at~~
25 ~~least five dollars, including penalty and interest.~~
- 26 3. If any amount of tax imposed by this chapter is not paid on or before March first, or
27 if upon audit an additional tax is found to be due, there must be added to the tax
28 remaining due interest at the rate of one percent of the additional tax for each
29 month or fraction of a month during which the tax remains unpaid, computed from
30 March first to the date paid.

- 1 ~~3.~~ 4. Taxes under this chapter constitute a first and paramount lien in favor of the state
2 upon all property and rights to property of the taxpayer. The lien may be
3 foreclosed in the same manner provided by law for mortgages on real or personal
4 property. Whenever any taxpayer liable to pay a tax or penalty imposed refuses or
5 neglects to pay the liability, the amount, including any interest, penalty, or addition
6 to the tax, and the additional costs that may accrue are a lien in favor of the state
7 of North Dakota upon all property and rights to property, whether real or personal,
8 belonging to the taxpayer. The lien attaches at the time the tax becomes due and
9 payable and continues until the liability for the amount is satisfied.
- 10 5. Any mortgagee, purchaser, judgment creditor, or lien claimant acquiring any
11 interest in, or lien on, any property situated in the state, prior to the tax
12 commissioner filing in the central indexing system maintained by the secretary of
13 state a notice of the lien provided for in subsection 4, takes free of, or has priority
14 over, the lien. The tax commissioner shall index in the central indexing system the
15 following data:
- 16 a. The name of the taxpayer.
17 b. The tax identification number or social security number of the taxpayer.
18 c. The name "State of North Dakota" as claimant.
19 d. The date and time the notice of lien was indexed.
20 e. The amount of the lien.
- 21 The notice of lien is effective as of eight a.m. the next day following the indexing of
22 the notice. The tax commissioner shall index any notice of lien with no payment of
23 fees or costs to the secretary of state.
- 24 6. Upon payment of the tax, and any accrued penalties and interest, as to which the
25 tax commissioner has filed a notice of lien, the tax commissioner shall index a
26 satisfaction of the lien in the central indexing system without fees or costs.

27 **SECTION 12. RETROACTIVE APPLICATION OF ACT - EFFECTIVE DATE -**

28 **EXPIRATION DATE.** This Act applies retroactively to all tax years beginning after
29 December 31, 1997. The amendments of subsections 1 and 3 of section 57-34-01 as
30 amended by section 7 of this Act are effective for taxable years beginning after December 31,
31 1998. The amendments to subsections 1 and 2 of section 57-34-02 as amended by section 8

Fifty-sixth
Legislative Assembly

- 1 of this Act are effective for the first two taxable years beginning after December 31, 1999, and
- 2 are thereafter ineffective.