



BUDGET PRESENTATION

SENATE APPROPRIATIONS COMMITTEE
SENATOR BEKKEDAHL, CHAIRMAN

Agency Overview and Purpose

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

Our office is the primary revenue collection agency for the state and our statutory authority can be found in NDCC 57-01, and administration of alcohol in 5-01, 5-02, 5-03. For the 2021-2023 biennium, the agency will collect over 90 percent, totaling approximately \$7.8 billion of all general fund revenues, excluding transfers, including an estimated \$3.7 billion in oil tax revenues.

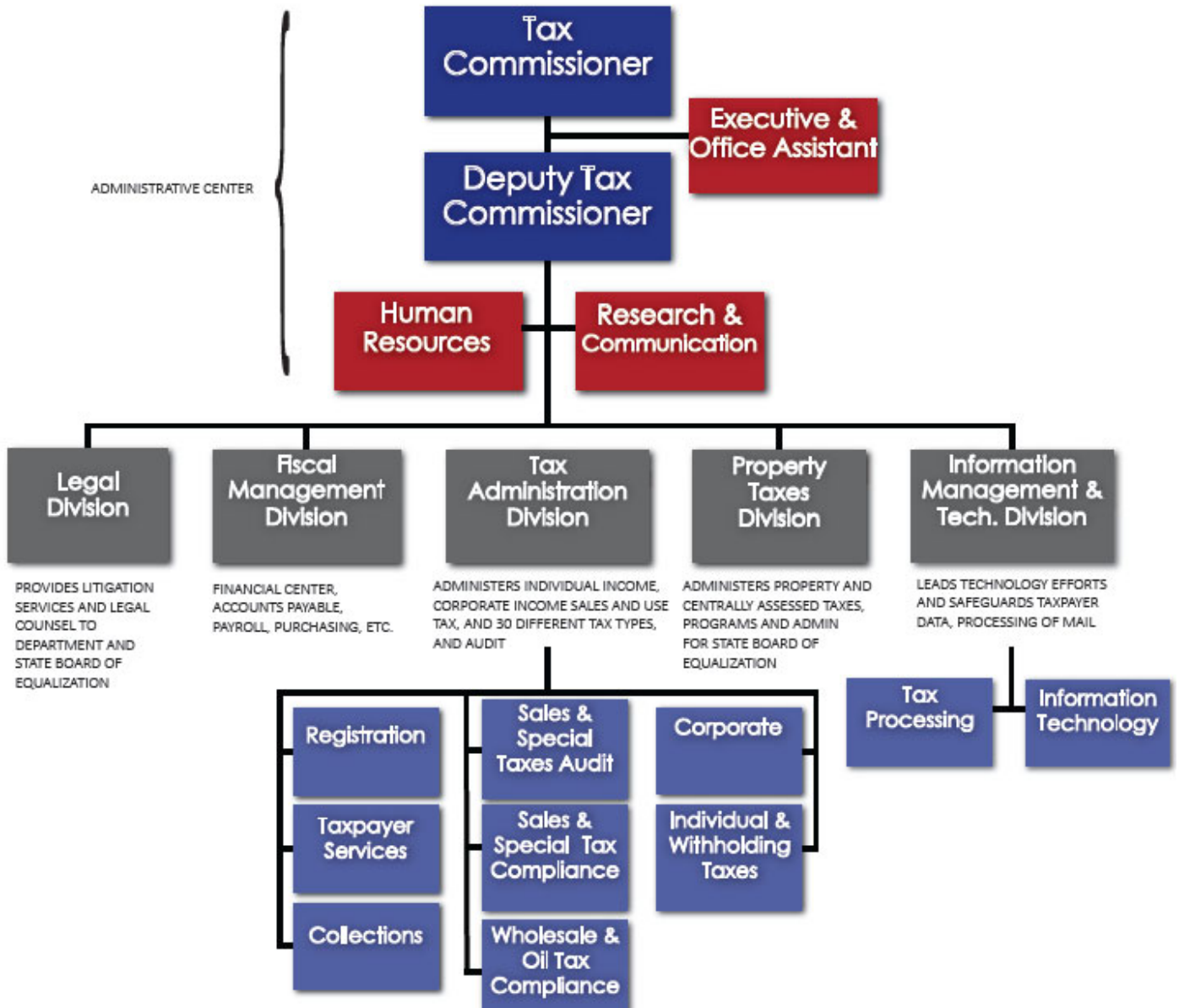
The Office of State Tax Commissioner collects and administers over 30 tax types, including local taxes administered on behalf of and allocated to political subdivisions.

Certain taxes, such as electric transmission line, coal severance, and telecommunications, are collected by the state in lieu of property taxes and are allocated back to counties providing an important source of revenue for local government.

Our agency serves as an informative resource to taxpayers, effectively and efficiently processes returns, analyzes statistical data, conducts discovery work, and conducts audits to ensure statutory compliance.

Information about the purpose and function of each of our divisions can be found in the following organizational chart.

Organizational Chart
118 Funded FTEs



Audit Findings

The operational audit for the Office of State Tax Commissioner conducted by the State Auditor's Office during the 2021-2023 interim identified no significant findings and one recommendation that "The Tax Commissioner has an opportunity to enhance monitoring procedures to confirm eligibility determined by counties for two types of property tax credits." The two tax credits noted were the Homestead Property Tax Credit and Disabled Veterans Tax Credit. The Office of State Tax Commissioner appreciates the recommendation.

Accomplishments

In addition to effectively and efficiently collecting revenue for the state, the Office of State Tax Commissioner has achieved numerous, important objectives this biennium.

- **Enhancing Citizen Experience – GenTax and ND Taxpayer Access Point (ND TAP)**
Platform improvements continue to enhance citizen experience and incentivizes use of our digital channels to support:
 - **Digital Transformation** – Transitioning taxpayers to electronic filing. Tax types currently converting to fully digital reporting by the end of 2023 include sales and use tax, local lodging and restaurant tax, motor fuels tax, prepaid wireless, and income tax withholding.
 - **Unclaimed Checks** – Implementation of new processes and digital enhancements has resulted in a more effective reissuance of checks to taxpayers. In 2022 alone, our efforts generated the return of \$577,230 to 692 taxpayers.
 - **Website Enhancement** – Shifting to a new web platform in 2022 has improved navigation, content placement and improved user access to tax information.
 - **Artificial Intelligence (AI) Chatbot** - The launch of "Teddy," our AI assistant/chatbot for ND TAP, has generated more than 19,500 interactions with questions from users, and provided almost 27,000 responses.
- **Single Point of Entry** – Creation of a single point of entry at the State Capitol has significantly enhanced customer service.
- **Reduction in Office Space** – Our agency reduced its physical footprint in July of 2021 by shifting 16 FTEs from the State Library to within the Capitol tower, utilizing existing office space.
- **Encourage Compliance – Audits** – Continued work to ensure taxpayers remain in compliance with tax laws by performing audits and compliance reviews. During the 2021-2023 biennium, over 1,000 sales and corporate audits were conducted with assessments of over \$90.0 million.
- **IT Security - Partnerships** – Continued focus on partnerships with the IRS, tax industry and other stakeholders supports our mission of keeping taxpayer information confidential and secure.
- **Remote & Marketplace Seller Taxation** – Instituted new processes to identify and register out-of-state sellers doing business in North Dakota because of the Supreme Court decision in June 2018, South Dakota v. Wayfair, that overturned the physical presence requirements for sales tax collection and remittance. This has resulted in an additional \$219 million in total collections as of June 2022.

Challenges

Future challenges affecting the Office of State Tax Commissioner include:

Digital Transformation – Support for Integrated Systems - Approximately 50 percent of the department's operating budget is dedicated to IT contractual services for the integrated tax system (GenTax) and Taxpayer Access Point (ND TAP). These platforms are the core of our customer service activities and tax return processing system.

The complexity and depth of GenTax requires ongoing support from FAST Enterprises (FAST) to maintain GenTax and ND TAP and to ensure we remain current from a technology and security standpoint. Investment in the current "Service Level 3" has allowed implementation of services like the ND Taxpayer Access Point, the addition of an AI assistant (Teddy), upgrades, and other core services at no additional cost.

Enhancing existing processes in GenTax, and the introduction of new tax types into the system, or citizen experience enhancements, improves the overall customer digital experience. These types of improvements/enhancements are not covered by our current maintenance contract and are included in our change package request.

Also, the addition of new tax types or changes to existing tax types creates two critical issues:

- 1) the need for additional staff to administer
- 2) technology enhancements requirements and customization to Gen Tax not currently covered under our maintenance contract (ex., legislative changes related to tax policy, changes to oil taxation, etc.)

Safeguarding Data & Fraud Protection - Safeguarding taxpayer information and data are vital functions of our IT infrastructure. Our agency is tasked with safeguarding both physical documents and IT systems where taxpayer data is stored. Growing threats related to identity theft and cyber-crime requires that our agency proactively and constantly address and implement new cyber-security measures.

The Internal Revenue Service requires the Office of State Tax Commissioner to have log management protocol that is managed for the agency by NDIT. Safeguarding data protects the public and is an investment in taxpayer trust.

Workforce Recruitment, Retention & Development – Salary adjustments have not kept pace with the market. Consequently, we have struggled with staff retention and recruitment. This has been especially pronounced in the current, high inflation environment.

The Office of State Tax Commissioner continues to be adversely impacted by lack of competitive salary increases over the past several biennia. These impacts have put various positions, including auditor and compliance, at a competitive disadvantage from a pay standpoint impeding our ability to attract and retain staff.

Tax knowledge is a specialized skillset for virtually all position types at our agency. It is imperative that salaries and the benefit package remain competitive, enabling us to recruit and retain the expertise required to best serve the citizens of the state.

Equally important is the need for resources to support continued training of our team members, an investment in them and our agency.

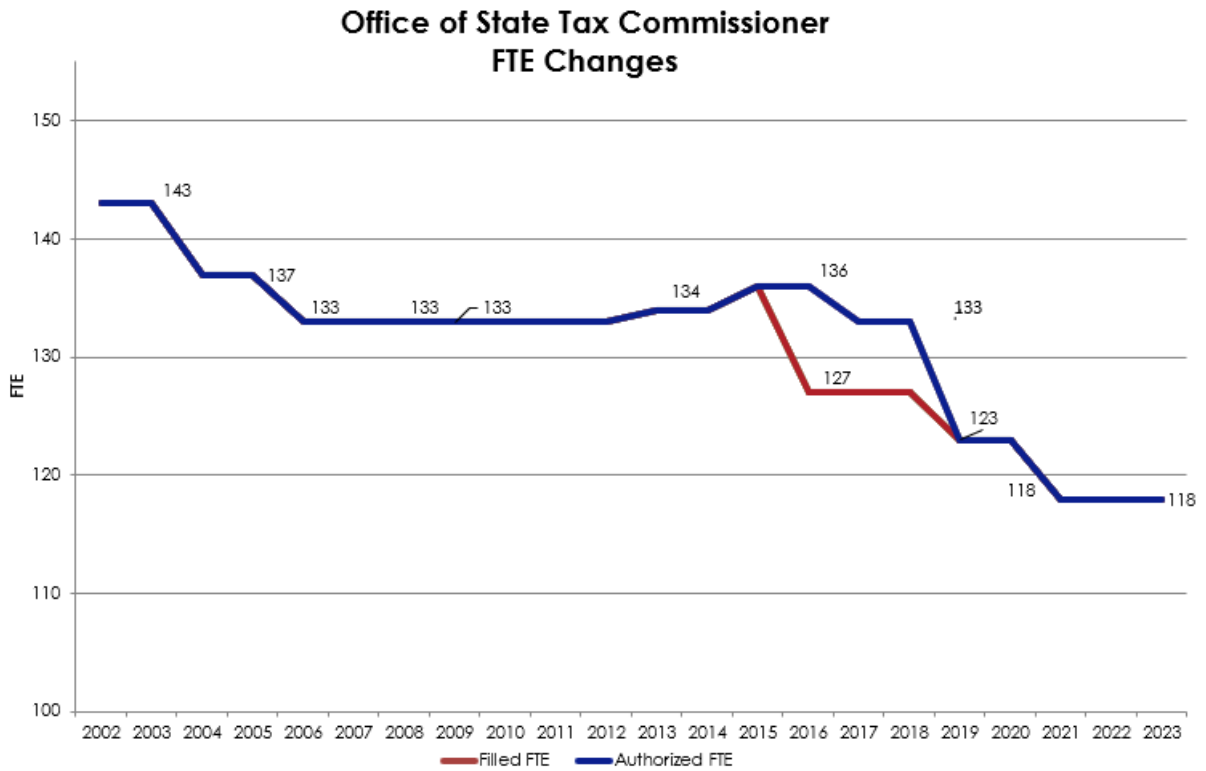
As more filings are submitted electronically, staffing needs also change. As we continue to transition to digital filing, the need for new skillsets and corresponding wages to support those positions exists.

As the primary revenue collection agency for North Dakota, it is important that we remain adequately and effectively staffed to:

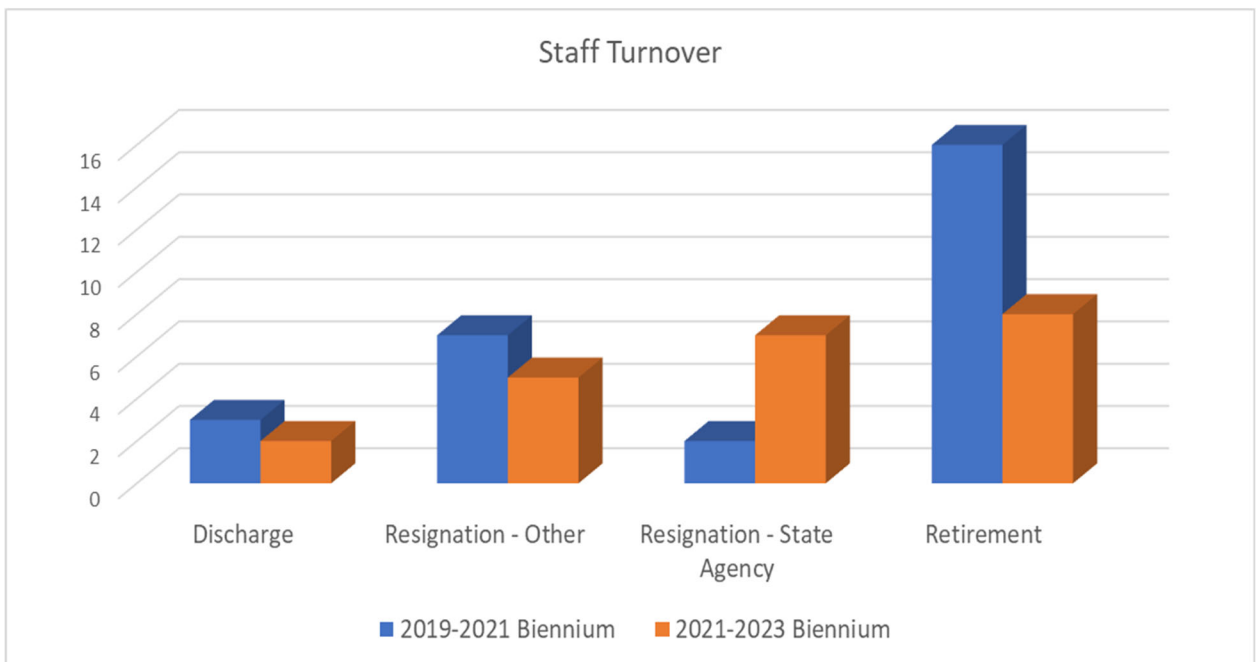
- Provide exceptional customer service.
- Meet citizen (taxpayer) expectations - Processing returns in an accurate and timely manner.
- Conduct appropriate audits and compliance activities to ensure compliance with North Dakota tax laws.
- Effectively and efficiently implement new tax laws.

The number of positions authorized for the agency has declined significantly over the past two decades, from 143 in 2002 to 118 in the current biennium. Reduction in staff has been possible through restructuring, advancements in technology and implementation of our integrated tax system known as GenTax.

Long-term history of the staffing level for the Office of State Tax Commissioner:



Staff turnover analysis:



Agency Funding Request and Comparisons to 2021-2023 Biennium

Line Item	2021-23 Legislative Base Budget	2021-23 Appropriation Total	Percent of Total
Salaries & Wages	22,867,956	22,594,196	75%
Operating Expenses	7,112,460	7,466,120	24.8%
Capital Assets	6,000	6,000	0.2%
Total	29,986,416	30,066,316	100%

As an administrative agency we rely heavily on staff to meet our statutory obligation and perform work the legislature has directed us to do. In direct correlation to that responsibility, approximately 75 percent of the current biennium operating budget is for salaries and wages. The appropriation for salaries and wages for the 2021-23 biennium is \$22.5 million.

The Office of State Tax Commissioner is authorized for 118 full-time equivalent positions for the 2021-23 biennium. Due to retirements of long-tenured employees and hiring delays related to the competitive recruitment environment, budget savings in salaries will be generated in the current biennium.

2021-23 Estimated Spending

The Office of State Tax Commissioner has analyzed estimated expenditures and the following unspent amounts are anticipated.

Line Item	2021-23 Base Level	Estimated 2021-23 Expenditures	Variance
Salaries and Wages	22,594,196	21,050,000	1,544,196
Operating Expenses	7,466,120	7,250,120	216,000
Capital Assets	6,000	5,500	500
Total	30,066,316	28,305,620	1,760,696
Less Federal Funds	(125,000)	(32,000)	(93,000)
Total General Fund	29,941,316	28,273,620	1,667,696

Analysis of Recommended Budget

Description/ Object Series	2021 - 2023 Appropriation	Estimated Expenses 2021 - 2023	2021 - 2023 Variance		Governor's Recommended Budget 2023 - 2025	Net Change Governor's Recommended Compared To 2021 - 2023 Appropriation
Salaries & Wages	22,594,196	21,050,000	1,544,196	(1)	24,778,324	2,184,128
Operating Expenses	7,466,120	7,250,120	216,000	(2)	9,113,370	1,647,250 (4)
Capital Assets	6,000	5,500	500		6,000	-
Homestead Tax Credit	18,000,000	17,775,000	225,000		18,900,000	900,000
Disabled Veterans Credit	16,300,000	16,150,000	150,000		18,745,000	2,445,000
Total By Object	64,366,316	62,230,620	2,135,696		71,542,694	7,176,378
Less estimated Income	125,000	32,000	93,000	(3)	125,000	-
Total General Fund	64,241,316	62,198,620	2,042,696		71,417,694	7,176,378
Total Special Funds	-	-	-		-	-
Total Federal Funds	125,000	32,000	93,000		125,000	-
Total All Funds	64,366,316	62,230,620	2,135,696		71,542,694	7,176,378
# of FTE's	118	118	-		118	-

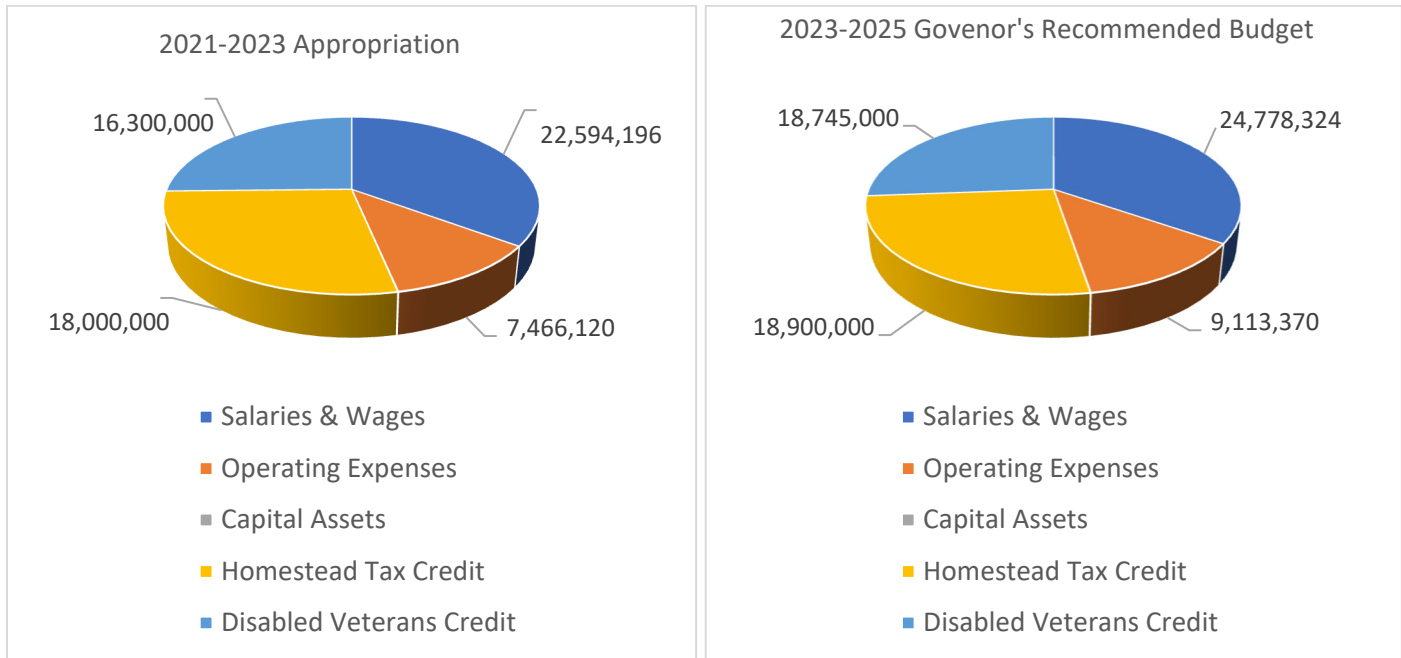
(1) The projected underspend in Salaries is due to savings from vacant positions due to staff turnover and recruitment challenges. As of 01/01/2023 the agency had 13 vacancies.

(2) The projected underspending in Operating Expenses is from unused federal grant funds (93,000) and reduced Operating Expenses (123,000).

(3) Estimated income is provided by Federal Grant for Dyed Motor Fuels testing, amount of grant varies based on Federal Funding awarded.

(4) The increase includes fully funding GenTax Maintenance Contract (400,000), GenTax Enhancements (500,000), Centralized Log Management (96,000), Rent (614,654), NDIT Service Increase (36,596).

2023-25 Governor's Recommended Budget



The 2023-25 base budget operating expenses are \$9 million. The operating expenses line item includes a scheduled maintenance contract increase of \$400,000 for GenTax to continue support at Level 3 service – total cost of \$4,400,000 for the biennium.

In addition, we are requesting the following for the 2023-25 biennium budget:

- \$500,000 to support an additional 2,500 hours of GenTax software programming costs which will allow us to enhance citizen experience, promote electronic filing, improve fraud detection, and further heighten security as well as addressing other needs not currently covered in our current general maintenance contract.
- \$96,000 to cover a Centralized Log Management System required by NDIT for safeguards to meet IRS IT security requirements.
- \$535,000 in an equity package adjustment plan to address salary inequities.
- \$614,654 to cover rent charged by OMB for Capitol space.

Analysis of Executive Recommended Budget

Description/Object Series	2021-2023 Appropriations	2023-2025 Base Budget Request	2023 -2025 Optional Budget Requests	2023 - 2025 Executive Recommended Changes	2023 - 2025 Executive Recommended Budget
Total Salaries & Fringe	22,594,196	22,753,630	1	2,024,694	24,778,324
FTE Employees	118	118	-	-	118
Operating Expenses					
Travel	226,400	214,266	-	-	214,266
Supplies - IT Software	174,931	173,431	-	-	173,431
Supply/Material - Professional	65,200	137,200	-	-	137,200
Miscellaneous Supplies	20,000	20,500	-	-	20,500
Office Supplies	50,000	45,500	-	-	45,500
Postage	635,900	627,400	-	-	627,400
Printing	68,000	66,000	-	-	66,000
IT Equipment under \$5,000	106,000	109,000	-	-	109,000
Other Equipment under \$5,000	1,900	500	-	-	500
Office Equip & Furniture-Under	99,904	93,500	-	-	93,500
Insurance	15,000	14,000	-	-	14,000
Rentals/Leases-Equipment&Other	60,000	50,000	-	-	50,000
Rentals/Leases - Bldg/Land	81,026	93,000	-	614,654	707,654
Repairs	135,000	132,000	-	-	132,000
IT - Data Processing	1,177,559	1,232,207	96,000	96,000	1,328,207
IT - Communications	155,000	155,712	-	-	155,712
IT Contractual Services and Re	4,063,500	4,063,000	900,000	900,000	4,963,000
Professional Development	197,400	174,600	-	-	174,600
Operating Fees and Services	115,000	92,000	-	-	92,000
Professional Fees and Services	18,400	8,900	-	-	8,900
Total Operating Expenses	7,466,120	7,502,716	996,000	1,610,654	9,113,370
Total Capital Assets	6,000	6,000	-	-	6,000
Salaries, Operating Expenses, Capital Assets Funding Source					
General Funds	29,941,316	30,137,346	996,001	3,635,348	33,772,694
Federal Funds	125,000	125,000	-	-	125,000
Special Funds	-	-	-	-	-
Total by Funds Salaries, Operating Expenses, & Capital Assets	30,066,316	30,262,346	996,001	3,635,348	33,897,694
Homestead Tax Credit	18,000,000	18,900,000	-	-	18,900,000
Disabled Veterans Tax Credit	16,300,000	18,745,000	-	-	18,745,000
Agency Total by Funding Source					
General Funds	64,241,316	67,782,346	996,001	3,635,348	71,417,694
Federal Funds	125,000	125,000	-	-	125,000
Special Funds	-	-	-	-	-
Total For Agency	64,366,316	67,907,346	996,001	3,635,348	71,542,694

Agency Collections

The following chart shows the various tax types administered by the agency and a ten-year comparison for amounts collected in fiscal year 2012 versus 2022. In most cases, the growth is reflective of growing business activity in the state and increase in the number of filers and returns processed by the agency.

Fiscal Years 2012 and 2022

DESCRIPTION	FY 2012 NET COLLECTIONS	FY 2022 NET COLLECTIONS	CHANGE
Sales & Use Tax	\$1,121,264,409	\$1,074,641,837	-\$46,622,572
Motor Vehicle Excise Tax	\$210,939	\$357,143	\$146,204
Local Occupancy Tax	\$3,438,749	\$3,143,331	-\$295,418
Local Sales Tax	\$191,754,625	\$315,887,274	\$124,132,649
Local Restaurant and Lodging Tax	\$5,478,371	\$9,252,883	\$3,774,512
Local Motor Vehicle Rental Tax	\$192,917	\$131,433	-\$61,484
Individual Income Tax	\$432,132,062	\$458,606,976	\$26,474,914
Corporate Income Tax	\$198,746,771	\$223,786,315	\$25,039,544
Financial Institutions Tax	\$13,418,653	\$116,669	-\$13,301,984
Cigarette Tax (Cities)	\$1,530,254	\$1,198,976	-\$331,278
Cigarette Tax (Tribe)	\$75,371	\$76,401	\$1,030
Cigarette Tax (GF)	\$20,944,702	\$16,545,221	-\$4,399,481
Tobacco Tax	\$5,663,312	\$6,827,551	\$1,164,239
Oil & Gas Gross Production Tax	\$795,681,003	\$1,494,531,005	\$698,850,002
Oil Extraction Tax	\$865,121,628	\$1,303,104,198	\$437,982,570
Telecommunications Tax	\$12,215,209	\$6,273,262	-\$5,941,947
Wholesale Liquor/beer Tax	\$8,523,427	\$9,903,036	\$1,379,609
Estate Tax	\$1,112	\$0	-\$1,112
Miscellaneous Remittances	\$9,347	\$9,558	\$211
Coal Severance Tax	\$11,001,918	\$10,343,540	-\$658,378
Coal Conversion Tax	\$25,430,529	\$6,671,229	-\$18,759,300
Electric Generation Tax	\$7,391,798	\$25,789,719	\$18,397,921
Music and Composition Tax	\$147,883	\$221,882	\$73,999
Sales & Use Tax Cash Bonds	\$883,342	\$12,384	-\$870,958
Fuel Dealers & Inspection Fees	\$344,829	\$253,378	-\$91,451
Motor Vehicle Fuel Tax	\$97,635,813	\$95,554,536	-\$2,081,277
Special Fuel Tax	\$107,261,416	\$84,386,493	-\$22,874,923
Motor Fuel Tax - Cash Bond	\$22,500	-\$12,000	-\$34,500
Nongame Wildlife Fund	\$21,970	\$34,002	\$12,032
Centennial Tree Trust Fund	\$22,745	\$42,534	\$19,789
Veterans' Postwar Trust Fund	\$0	\$31,213	\$31,213
Organ Transplant Support Fund	\$15,478	\$18,679	\$3,201
Airline Tax	\$216,968	\$257,109	\$40,141
Aircraft Excise Tax	\$0	\$21,649	\$21,649
Prepaid Wireless Emergency 911 Fee	\$0	\$1,209,813	\$1,209,813
Provider Assessment	\$4,719,614	\$6,420,261	\$1,700,647
TOTAL COLLECTIONS	\$3,931,519,664	\$5,155,649,489	\$1,224,129,825

Dynamic economic growth in the state has resulted in a corresponding increase in workload at the Office of State Tax Commissioner. The number of returns received for nearly all tax types continues to grow.

The following chart illustrates the growth in the Office of State Tax Commissioner's workload since 2012:

	2012	2017	2022	2012-2022	
				Increase (Decrease)	Percent Change
Sales tax – original returns filed	177,782	204,687	269,201	91,419	51%
Individual income tax withholding - original returns filed	134,708	145,635	157,771	23,063	17%
Individual income tax - original returns filed	419,034	474,970	468,023	48,989	12%
Partnership and S Corp - original returns filed	31,300	42,414	46,266	14,966	48%
Corporate income tax - original returns filed by out of state corporations	6,529	7,566	8,698	2,169	33%
Canadian resident sales tax refund requests	28,001	10,823	2,968	-25,033	-89%
Fraudulent Claims/ID Theft – Identification of over 1,800 fraudulent claims, totaling over \$4.5 million since 2015.					

For estimated changes related to these collections, refer to the December 2022 Revenue Forecast.

Federal Funding Changes

No changes in federal funding are expected for the 2023-25 biennium.

2023-25 Biennium Requested Budget

Priority 1– Equity Package

As previously mentioned, salary adjustments have not kept pace with the market.

Our request is the legislative body recognize these challenges and approve an equity adjustment package for our agency, so we are not at risk of losing additional knowledgeable staff to competitors within state government, i.e. agencies paying more for the same job classification, and to the private sector due to salary inequities.

The Office of State Tax Commissioner requests \$535,000 equity enhancement package (same as Governor’s recommendation).

Priority 2 – Digital Transformation – GenTax Support

The Office of State Tax Commissioner implemented GenTax in the 2005-07 biennium as its integrated tax platform. To maintain current support levels, which include upgrades and other technological enhancements, a total of \$4.4 million is needed for the 2023-2025 biennium, including an adjustment of \$400,000 to our base budget for planned maintenance cost growth.

Our budget also includes one-time funding of \$500,000 to cover 2,500 hours of time and labor costs which would allow us to address existing needs and associated processes, enhance electronic filing, improve fraud detection and system security, provide greater AI assistance, and improve overall citizen experience.

The proposed budget also includes \$96,000 to support a Centralized Log Management System required under IRS security standards that is managed by NDIT which supports safeguarding taxpayer data.

The Office of State Tax Commissioner requests \$996,00 continue to enhance GenTax and support digital transformation and fraud protection (same as Governor’s recommendation).

RENT

The Governor's recommended budget includes \$614,654 for rent of Capitol space.

The Office of State Tax Commissioner requests \$614,654 for rent of Capitol space (same as Governor's recommendation).

Grant Programs Budget – Homestead Tax Credit and Disabled Veteran’s Credit

2021-23 Biennium Base Level Budget and 2023-25 Biennium Governor’s Recommended Budget

The Homestead Tax Credit program provides property tax relief for qualifying low-income persons who are 65 years of age or older or who are disabled. The credit is up to 100 percent of the taxes levied on the first \$125,000 of true and full value, for applicants with annual income below \$22,000. A reduced level of credit is available to applicants with annual income up to \$42,000.

The appropriation for this line for the 2021-23 biennium is \$18 million. Expenditures during the first year of the biennium totaled slightly more than \$8.2 million. Although fiscal year 2022 expenditures will not be known until close to the end of the biennium, it is estimated that the remaining appropriation will be sufficient to cover projected expenditures.

The Disabled Veteran's Credit program provides property tax relief for disabled veterans with a service-connected disability of 50 percent or greater. The credit is up to 100 percent of the taxes levied on the first \$150,000 of true and full value. The percentage of credit allowed is equal to the percentage of the disabled veteran's disability compensation rating.

The appropriation for this line for the 2021-23 biennium is \$16.3 million. Expenditures during the first year of the biennium totaled just over \$7.2 million. Although fiscal year 2022 expenditures will not be known until close to the end of the biennium, it is estimated that the remaining appropriation will be sufficient to cover projected expenditures.

After the credit is granted by counties to eligible taxpayers, the county receives reimbursement from the state.

Barring any legislative changes to these programs, the Office of State Tax Commissioner requests \$18.9 million for the Homestead Tax Credit program and \$18.745 million for the Disabled Veteran’s Credit program (same as Governor’s recommendation).

Comparison of Optional Budget Asks and Governor's Recommended Budget

Description	Agency Optional Request	Agency Optional Not Included Executive Budget	Executive Recommended	Balance In 2023 - 2025 Recommended Budget	Explanation
Salary & Wages					
Targeted Equity	1	1	-	-	Emphasis on Equity
Funding for Salary Increase	-	-	1,484,574	1,484,574	Executive Recommendation
Funding for Health Insurance Increase	-	-	540,120	540,120	Executive Recommendation
Total Salary & Wages	1	1	2,024,694	2,024,694	
Operating Expenses					
GenTax Service	400,000	-	400,000	400,000	Continue Level III Maintenance
GenTax Enhancements	500,000	-	500,000	500,000	System Enhancements NDIT Centralized Management
Centralized Management Log	96,000	-	96,000	96,000	Log Service required by IRS
NDIT Service Increase	-	-	36,596	36,596	NDIT Services Increases
Rent	-	-	614,654	614,654	Proposed Rent
Total Operating Expense Adjustments	996,000	-	1,647,250	1,647,250	
Est. Increase Homestead Tax Credit	-	-	900,000	900,000	Increase needed to fund
Est. Increase Disabled Veterans Tax Credit	-	-	2,445,000	2,445,000	Increase needed to fund
Total All Adjustments	996,001	1	7,016,944	7,016,944	