

Introduced by

1 A BILL for an Act to amend and reenact subsection 4 of section 10-33-124, subsection 5 of
2 section 11-37-08, section 37-28-07, subsections 1 and 3 of section 40-63-04, section 40-63-06,
3 subsection 4 of section 40-63-07, subsections 1 and 2 of section 57-38-01.7, subsections 1 and
4 4 of section 57-38-01.8, sections 57-38-01.14, 57-38-01.16, and 57-38-01.17, subsection 1 of
5 section 57-38-01.20, subsections 2 and 4 of section 57-38-01.21, sections 57-38-01.22,
6 57-38-01.23, 57-38-01.24, 57-38-01.25, and 57-38-01.26, subsection 6 of section 57-38-01.27,
7 subsection 1 of section 57-38-01.29, subsection 1 of section 57-38-01.30, and sections
8 57-38-30.3, 57-38-30.5, 57-38-31, 57-38.5-03, and 57-38.6-03 of the North Dakota Century
9 Code, relating to elimination of the optional long-form individual, estate, and trust income tax
10 return; to repeal sections 57-38-01.2, 57-38-01.18, 57-38-06.1, 57-38-29, 57-38-29.2,
11 57-38-30.4, 57-38-67, 57-38-68, 57-38-69, and 57-38-70 of the North Dakota Century Code,
12 relating to elimination of the optional long-form individual, estate, and trust income tax return;
13 and to provide an effective date.

14 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

15 **SECTION 1. AMENDMENT.** Subsection 4 of section 10-33-124 of the North Dakota
16 Century Code is amended and reenacted as follows:

- 17 4. a. ~~An individual or a~~ A corporation that buys membership in, or pays dues or
18 contributes to, a nonprofit development corporation is entitled to an income
19 tax credit against the tax liability under section 57-38-30 equal to twenty-five
20 percent of the amount paid.
- 21 b. This credit may not be claimed by ~~an individual who elects to file an income~~
22 ~~tax return under section 57-38-30.3 or by~~ a corporation that is recognized as a
23 subchapter S corporation under section 57-38-01.4.

c. No taxpayer is entitled to more than two thousand dollars in total income tax credits under this section.

d. The amount of the credit under this section in excess of the taxpayer's income tax liability may be carried forward for up to seven taxable years.

SECTION 2. AMENDMENT. Subsection 5 of section 11-37-08 of the North Dakota Century Code is amended and reenacted as follows:

5. Bonds issued by a commerce authority under this section are declared to be issued for an essential public government purpose, and together with interest and income on the bonds, are exempt from all individual and corporate taxes imposed under sections 57-35.3-03, ~~57-38-29~~, 57-38-30, and 57-38-30.3.

SECTION 3. AMENDMENT. Section 37-28-07 of the North Dakota Century Code is amended and reenacted as follows:

37-28-07. Payments exempt from taxation and from execution - Assignments void - Debts to state and political subdivisions not deducted. Payments under this chapter are exempt from all state and local taxes, including taxes determined under section ~~57-38-29~~ or 57-38-30.3, and from levy, garnishment, attachment, and sale on execution. Any pledge, mortgage, sale, assignment, or transfer of any right, claim, or interest in any claim or payment under this chapter is void and payment to the veteran may not be denied because of any sums owed to the state or any political subdivisions, except as provided in section 37-26-05.

SECTION 4. AMENDMENT. Subsections 1 and 3 of section 40-63-04 of the North Dakota Century Code are amended and reenacted as follows:

1. An individual taxpayer who purchases or rehabilitates single-family residential property for the individual's primary place of residence as a zone project is exempt from up to ten thousand dollars of personal income tax liability as determined under section ~~57-38-29~~ or 57-38-30.3 for five taxable years beginning with the date of occupancy or completion of rehabilitation.

3. If the cost of a new business purchase or expansion of an existing business, approved as a zone project, exceeds seventy-five thousand dollars, and the business is located in a city with a population of not more than two thousand five hundred, an individual taxpayer may, in lieu of the exemption provided in subsection 2, elect to take an income tax exemption of up to two thousand dollars

of personal income tax liability as determined under section ~~57-38-29 or~~
57-38-30.3. The election must be made on the taxpayer's zone project application.
The election is irrevocable and binding for the duration of the exemptions provided
in subsection 2 or this subsection. If no election is made on the zone project
application, the taxpayer is only eligible for the exemption provided in subsection 2.

SECTION 5. AMENDMENT. Section 40-63-06 of the North Dakota Century Code is
amended and reenacted as follows:

40-63-06. Historic preservation and renovation tax credit. A credit against state tax
liability as determined under sections 57-35.3-03, ~~57-38-29~~, 57-38-30, and 57-38-30.3 is
allowed for investments in the historic preservation or renovation of property within the
renaissance zone. The amount of the credit is twenty-five percent of the amount invested, up to
a maximum of two hundred fifty thousand dollars. The credit may be claimed in the year in
which the preservation or renovation is completed. Any excess credit may be carried forward
for a period of up to five taxable years.

SECTION 6. AMENDMENT. Subsection 4 of section 40-63-07 of the North Dakota
Century Code is amended and reenacted as follows:

4. A credit against state tax liability as determined under section 57-35.3-03,
~~57-38-29~~, 57-38-30, or 57-38-30.3 is allowed for investments in a renaissance fund
organization. The amount of the credit is fifty percent of the amount invested in the
renaissance fund organization during the taxable year. Any amount of credit which
exceeds a taxpayer's tax liability for the taxable year may be carried forward for up
to five taxable years after the taxable year in which the investment was made.

SECTION 7. AMENDMENT. Subsections 1 and 2 of section 57-38-01.7 of the North
Dakota Century Code are amended and reenacted as follows:

1. At the election of the taxpayer, there must be allowed, subject to the applicable
limitations provided in this subsection, as a credit against the income tax ~~imposed~~
~~by this chapter~~ liability under section 57-38-30 for the taxable year, an amount
equal to fifty percent of the aggregate amount of charitable contributions made by
the taxpayer during the year to nonprofit private institutions of higher education
located within the state or to the North Dakota independent college fund.

1 a. ~~In the case of a taxpayer other than a corporation, the amount allowable as a~~
2 ~~credit under this subsection for any taxable year may not exceed forty percent~~
3 ~~of the taxpayer's total income tax under this chapter for the year, or two~~
4 ~~hundred fifty dollars, whichever is less.~~

5 b. ~~In the case of a corporation, the~~ The amount allowable as a credit under this
6 subsection for any taxable year may not exceed twenty percent of the
7 corporation's total income tax under this chapter for the year, or two thousand
8 five hundred dollars, whichever is less.

9 2. At the election of the taxpayer, there must be allowed, subject to the applicable
10 limitations provided in this subsection, as a credit against the income tax ~~imposed~~
11 ~~by this chapter~~ liability under section 57-38-30 for the taxable year, an amount
12 equal to fifty percent of the aggregate amount of charitable contributions made by
13 the taxpayer during the year directly to nonprofit private institutions of secondary
14 education, located within the state.

15 a. ~~In the case of a taxpayer other than a corporation, the amount allowable as a~~
16 ~~credit under this subsection for any taxable year may not exceed forty percent~~
17 ~~of the taxpayer's total income tax under this chapter for the year, or two~~
18 ~~hundred fifty dollars, whichever is less.~~

19 b. ~~In the case of a corporation, the~~ The amount allowable as a credit under this
20 subsection for any taxable year may not exceed twenty percent of the
21 corporation's total income tax under this chapter for the year, or two thousand
22 five hundred dollars, whichever is less.

23 **SECTION 8. AMENDMENT.** Subsections 1 and 4 of section 57-38-01.8 of the North
24 Dakota Century Code are amended and reenacted as follows:

25 1. ~~Any~~ A taxpayer filing a North Dakota income tax return pursuant to the provisions
26 of this chapter may claim a credit against the tax liability under section 57-38-30 for
27 the cost of a geothermal, solar, wind, or biomass energy device installed before
28 January 1, 2011, in a building or on property owned or leased by the taxpayer in
29 North Dakota. The credit provided in this section for a device installed before
30 January 1, 2001, must be in an amount equal to five percent per year for three
31 years, and for a device installed after December 31, 2000, must be in an amount

equal to three percent per year for five years of the actual cost of acquisition and installation of the geothermal, solar, wind, or biomass energy device and must be subtracted from any income tax liability of the taxpayer as determined pursuant to the provisions of this chapter.

4. A partnership, subchapter S corporation, limited partnership, limited liability company, or any other passthrough entity that installs a geothermal, solar, wind, or biomass energy device in a building or on property owned or leased by the passthrough entity must be considered to be the taxpayer for purposes of this section, and the amount of the credit allowed with respect to the entity's investments must be determined at the passthrough entity level. The amount of the total credit determined at the entity level must be passed through to the corporate partners, shareholders, or members in proportion to their respective interests in the passthrough entity.

SECTION 9. AMENDMENT. Section 57-38-01.14 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.14. No gain recognized on property subject to eminent domain sale or transfer. If any private property, through the exercise of eminent domain, is involuntarily converted into property of either like or unlike kind, no gain, either ordinary or capital, may be recognized for corporate income tax purposes.

SECTION 10. AMENDMENT. Section 57-38-01.16 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.16. Income tax credit for employment of developmentally disabled or chronically mentally ill persons. ~~Any~~ A taxpayer filing an income tax return under this chapter, ~~except a return on which liability is determined under section 57-38-30.3,~~ may claim a credit against the tax liability imposed under section 57-38-30 for a portion of the wages paid to a developmentally disabled or chronically mentally ill employee. The credit allowed under this section equals five percent of up to six thousand dollars in wages paid during the first twelve months of employment by the taxpayer for each developmentally disabled or chronically mentally ill employee of the taxpayer. Only wages actually paid during the taxpayer's taxable year may be considered for purposes of this section. An employee of a subcontractor is considered an employee of the contractor to the extent of any wages paid under the contract.

1 The total of credits allowed under this section may not exceed fifty percent of the
2 taxpayer's liability under this chapter.

3 **SECTION 11. AMENDMENT.** Section 57-38-01.17 of the North Dakota Century Code
4 is amended and reenacted as follows:

5 **57-38-01.17. Credit for investments in development corporations.** ~~An individual,~~
6 ~~estate, trust, or~~ A corporation is allowed, as a credit against a tax otherwise due under section
7 ~~57-38-29 or~~ 57-38-30, the credit for buying membership in, or paying dues or contributions to, a
8 certified nonprofit development corporation as provided in section 10-33-124.

9 **SECTION 12. AMENDMENT.** Subsection 1 of section 57-38-01.20 of the North Dakota
10 Century Code is amended and reenacted as follows:

- 11 1. An individual is entitled to a credit against the tax imposed under section ~~57-38-29~~
12 ~~or~~ 57-38-30.3 in the amount of qualified care expenses under this section paid by
13 the individual for the care of a qualifying family member during the taxable year.

14 **SECTION 13. AMENDMENT.** Subsections 2 and 4 of section 57-38-01.21 of the North
15 Dakota Century Code are amended and reenacted as follows:

- 16 2. An individual is allowed a tax credit against the tax imposed by section ~~57-38-29 or~~
17 57-38-30.3 in an amount equal to forty percent of the present value of the
18 aggregate amount of the charitable gift portion of planned gifts made by the
19 taxpayer during the year to a qualified nonprofit organization or qualified
20 endowment. The maximum credit that may be claimed under this subsection for
21 contributions made in a taxable year is ten thousand dollars, or twenty thousand
22 dollars for married individuals filing a joint return. The credit allowed under this
23 section may not exceed the taxpayer's income tax liability.
- 24 4. An estate or trust is allowed a tax credit in an amount equal to forty percent of a
25 charitable gift to a qualified endowment. The maximum credit allowed under this
26 subsection for contributions made in a taxable year is ten thousand dollars. The
27 allowable credit must be apportioned to the estate or trust and to its beneficiaries
28 on the basis of the income of the estate or trust allocable to each, and the
29 beneficiaries may claim their share of the credit against the tax imposed by section
30 ~~57-38-29, 57-38-30, or~~ 57-38-30.3. A beneficiary may claim the credit only in the
31 beneficiary's taxable year in which the taxable year of the estate or trust ends.

Subsections 6 and 7 apply to the estate or trust and its beneficiaries with respect to their respective shares of the apportioned credit.

SECTION 14. AMENDMENT. Section 57-38-01.22 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.22. Income tax credit for blending of biodiesel fuel. A fuel supplier licensed pursuant to section 57-43.2-05 who blends biodiesel fuel is entitled to a credit against tax liability determined under section ~~57-38-29~~, 57-38-30, or 57-38-30.3 in the amount of five cents per gallon [3.79 liters] of biodiesel fuel of at least five percent blend, otherwise known as B5. For purposes of this section, "biodiesel" means fuel meeting the specifications adopted by the American society for testing and materials. The credit under this section may not exceed the taxpayer's liability as determined under this chapter for the taxable year and each year's unused credit amount may be carried forward for up to five taxable years.

A partnership, subchapter S corporation, limited partnership, limited liability company, or any other passthrough entity entitled to the credit under this section must be considered to be the taxpayer for purposes of this section, and the amount of the credit allowed must be determined at the passthrough entity level. The amount of the total credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the passthrough entity.

SECTION 15. AMENDMENT. Section 57-38-01.23 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.23. Income tax credit for biodiesel sales equipment costs. A seller of biodiesel fuel is entitled to a credit against tax liability determined under section ~~57-38-29~~, 57-38-30, or 57-38-30.3 in the amount of ten percent per year for five years of the biodiesel fuel seller's direct costs incurred after December 31, 2004, to adapt or add equipment to a facility, licensed under section 57-43.2-05, to enable the facility to sell diesel fuel containing at least two percent biodiesel fuel by volume. For purposes of this section, "biodiesel fuel" means fuel meeting the specifications adopted by the American society for testing and materials. The credit under this section may not exceed a taxpayer's liability as determined under this chapter for the taxable year and each year's unused credit amount may be carried forward for up to five taxable years. A biodiesel fuel seller is limited to fifty thousand dollars in the cumulative amount of credits under this section for all taxable years. A biodiesel fuel seller may not claim a credit

under this section for any taxable year before the taxable year in which the facility begins selling biodiesel fuel containing at least two percent biodiesel fuel by volume, but eligible costs incurred before the taxable year sales begin may be claimed for purposes of the credit under this section for taxable years on or after the taxable year sales of biodiesel fuel begin.

A partnership, subchapter S corporation, limited partnership, limited liability company, or any other passthrough entity entitled to the credit under this section must be considered to be the taxpayer for purposes of this section, and the amount of the credit allowed must be determined at the passthrough entity level. The amount of the total credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the passthrough entity.

SECTION 16. AMENDMENT. Section 57-38-01.24 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.24. Internship employment tax credit.

1. A taxpayer that is an employer within this state is entitled to a credit as determined under this section against state income tax liability under section ~~57-38-29~~, 57-38-30; or 57-38-30.3 for qualified compensation paid to an intern employed in this state by the taxpayer. To qualify for the credit under this section, the internship program must meet the following qualifications:
 - a. The intern must be an enrolled student in an institution of higher education or vocational technical education program who is seeking a degree or a certification of completion in a major field of study closely related to the work experience performed for the taxpayer;
 - b. The internship must be taken for academic credit or count toward the completion of a vocational technical education program;
 - c. The intern must be supervised and evaluated by the taxpayer; and
 - d. The internship position must be located in this state.
2. The amount of the credit to which a taxpayer is entitled is ten percent of the stipend or salary paid to a college intern employed by the taxpayer. A taxpayer may not receive more than three thousand dollars in total credits under this section for all taxable years combined.

- a. The tax credit under this section applies to a stipend or salary for not more than five interns employed at the same time.
- b. A partnership, subchapter S corporation, or limited liability company that for tax purposes is treated like a partnership that is entitled to the credit under this section must be considered to be the taxpayer for purposes of calculating the credit. The amount of the allowable credit must be determined at the passthrough entity level. The total credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the passthrough entity.

SECTION 17. AMENDMENT. Section 57-38-01.25 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.25. Workforce recruitment credit for hard-to-fill employment positions.

A taxpayer that is an employer in this state is entitled to a credit as determined under this section against state income tax liability under section ~~57-38-29~~, 57-38-30, or 57-38-30.3 for costs the taxpayer incurred during the tax year to recruit and hire employees for hard-to-fill employment positions within this state for which the annual salary for the position meets or exceeds the state average wage.

1. The amount of the credit to which a taxpayer is entitled is five percent of the salary paid for the first twelve consecutive months to the employee hired for the hard-to-fill employment position. To qualify for the credit under this section, the employee must be employed by the taxpayer in the hard-to-fill employment position for twelve consecutive months.
2. For purposes of this section:
 - a. "Extraordinary recruitment methods" means using all of the following:
 - (1) A person with the exclusive business purpose of recruiting employees and for which a fee is charged by that recruiter.
 - (2) An advertisement in a professional trade journal, magazine, or other publication, the main emphasis of which is providing information to a particular trade or profession.
 - (3) A web site, the sole purpose of which is to recruit employees and for which a fee is charged by the web site.

(4) Payment of a signing bonus, moving expenses, or nontypical fringe benefits.

b. "Hard-to-fill employment position" means a job that requires the employer to use extraordinary recruitment methods and for which the employer's recruitment efforts for the specific position have been unsuccessful for six consecutive calendar months.

c. "State average wage" means one hundred twenty-five percent of the state average wage published annually by job service North Dakota and which is in effect at the time the employee is hired.

3. The taxpayer may claim the credit in the first tax year beginning after the employee hired for the hard-to-fill position has completed the employee's first twelve consecutive months of employment in the hard-to-fill position with the taxpayer.

4. The credit under this section may not exceed a taxpayer's liability for the taxable year as determined under this chapter. Any amount of unused credit may be carried forward for up to four taxable years after the taxable year in which the credit could initially be claimed.

5. A partnership, subchapter S corporation, or limited liability company that for tax purposes is treated like a partnership that is entitled to the credit under this section must be considered to be the taxpayer for purposes of this section and the amount of the credit allowed must be determined at the passthrough entity level. The amount of the total credit determined at the passthrough entity level must be allowed to the members in proportion to their respective interests in the passthrough entity.

SECTION 18. AMENDMENT. Section 57-38-01.26 of the North Dakota Century Code is amended and reenacted as follows:

57-38-01.26. Angel fund investment tax credit. A taxpayer is entitled to a credit against state income tax liability under section ~~57-38-29~~, 57-38-30, or 57-38-30.3 for an investment made in an angel fund that is incorporated in this state. The angel fund must be in compliance with the securities laws of this state for the investment to qualify for the tax credit under this section. The amount of the credit to which a taxpayer is entitled is forty-five percent of the amount invested by the taxpayer in an angel fund during the taxable year. The

1 aggregate annual credit for which a taxpayer may obtain a tax credit is not more than forty-five
2 thousand dollars. To be eligible for the credit, the investment must be at risk in the angel fund
3 for at least three years. Investments placed in escrow do not qualify for the credit. The credit
4 must be claimed in the taxable year in which the investment in the angel fund was received by
5 the angel fund. The credit allowed may not exceed the liability for tax under this chapter. If the
6 amount of credit determined under this section exceeds the liability for tax under this chapter,
7 the excess may be carried forward to each of the four succeeding taxable years. A taxpayer
8 claiming a credit under this section may not claim any credit available to the taxpayer as a
9 result of an investment made by the angel fund in a qualified business under chapter 57-38.5 or
10 57-38.6.

11 **SECTION 19. AMENDMENT.** Subsection 6 of section 57-38-01.27 of the North Dakota
12 Century Code is amended and reenacted as follows:

- 13 6. A taxpayer that is certified as a microbusiness is entitled to tax credits against tax
14 liability as determined under section ~~57-38-29~~, 57-38-30, or 57-38-30.3 equal to
15 twenty percent of the taxpayer's new investment and new employment in the
16 microbusiness during the taxable year. A taxpayer may not obtain more than ten
17 thousand dollars in credits under this section over any combination of taxable
18 years.

19 **SECTION 20. AMENDMENT.** Subsection 1 of section 57-38-01.29 of the North Dakota
20 Century Code is amended and reenacted as follows:

- 21 1. In addition to any other credit or deduction allowed by law for a homeowner, an
22 individual is entitled to a credit against the tax imposed under section ~~57-38-29 or~~
23 57-38-30.3 for taxable years 2007 and 2008 in the amount of ten percent of
24 property taxes or mobile home taxes that became due during the income tax
25 taxable year and are paid which were levied against the individual's homestead in
26 this state. For purposes of this section, "property taxes" does not include any
27 special assessments.

28 **SECTION 21. AMENDMENT.** Subsection 1 of section 57-38-01.30 of the North Dakota
29 Century Code is amended and reenacted as follows:

- 30 1. In addition to any other credit or deduction allowed by law for a property owner, an
31 individual or corporation is entitled to a credit against the tax imposed under

section ~~57-38-29~~, 57-38-30, or 57-38-30.3 for taxable years 2007 and 2008 in the amount of ten percent of property taxes or mobile home taxes that became due during the income tax taxable year and are paid which were levied against commercial property in this state. For purposes of this section, "property taxes" does not include any special assessments.

- a. The amount of the credit under this section may not exceed one thousand dollars for any taxpayer.
- b. The amount of the credit under this section may not exceed the taxpayer's tax liability under this chapter.
- c. The amount of the credit under this section may not exceed one thousand dollars for married persons filing a joint return or five hundred dollars for a single individual or married individual filing separate returns.

SECTION 22. AMENDMENT. Section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30.3. ~~Simplified method of computing~~ Individual, estate, and trust income tax.

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.
 - a. Single, other than head of household or surviving spouse.

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1	If North Dakota taxable income is:	The tax is equal to:
2	Not over \$27,050 <u>\$33,950</u>	2.40% <u>2.099%</u>
3	Over \$27,050 <u>\$33,950</u> but not over	\$568.05 <u>\$712.61</u> plus 3.92% of amount
4	\$65,550 <u>\$82,250</u>	over \$27,050 <u>\$33,950</u>
5	Over \$65,550 <u>\$82,250</u> but not over	\$2,077.25 <u>\$2,605.97</u> plus 4.34% of amount
6	\$136,750 <u>\$171,550</u>	over \$65,550 <u>\$82,250</u>
7	Over \$136,750 <u>\$171,550</u> but not over	\$5,167.33 <u>\$6,481.59</u> plus 5.04% of amount
8	\$297,350 <u>\$372,950</u>	over \$136,750 <u>\$171,550</u>
9	Over \$297,350 <u>\$372,950</u>	\$13,261.57 <u>\$16,632.15</u> plus 5.54% of amount
10		over \$297,350 <u>\$372,950</u>

b. Married filing jointly and surviving spouse.

12	If North Dakota taxable income is:	The tax is equal to:
13	Not over \$45,200 <u>\$56,750</u>	2.40% <u>2.099%</u>
14	Over \$45,200 <u>\$56,750</u> but not over	\$949.20 <u>\$1,191.18</u> plus 3.92% of amount
15	\$109,250 <u>\$137,050</u>	over \$45,200 <u>\$56,750</u>
16	Over \$109,250 <u>\$137,050</u> but not over	\$3,459.96 <u>\$4,338.94</u> plus 4.34% of amount
17	\$166,500 <u>\$208,850</u>	over \$109,250 <u>\$137,050</u>
18	Over \$166,500 <u>\$208,850</u> but not over	\$5,944.61 <u>\$7,455.06</u> plus 5.04% of amount
19	\$297,350 <u>\$372,950</u>	over \$166,500 <u>\$208,850</u>
20	Over \$297,350 <u>\$372,950</u>	\$12,539.45 <u>\$15,725.70</u> plus 5.54% of amount
21		over \$297,350 <u>\$372,950</u>

c. Married filing separately.

23	If North Dakota taxable income is:	The tax is equal to:
24	Not over \$22,600 <u>\$28,375</u>	2.40% <u>2.099%</u>
25	Over \$22,600 <u>\$28,375</u> but not over	\$474.60 <u>\$595.59</u> plus 3.92% of amount
26	\$54,625 <u>\$68,525</u>	over \$22,600 <u>\$28,375</u>
27	Over \$54,625 <u>\$68,525</u> but not over	\$1,729.98 <u>\$2,169.47</u> plus 4.34% of amount
28	\$83,250 <u>\$104,425</u>	over \$54,625 <u>\$68,525</u>
29	Over \$83,250 <u>\$104,425</u> but not over	\$2,972.31 <u>\$3,727.53</u> plus 5.04% of amount
30	\$148,675 <u>\$186,475</u>	over \$83,250 <u>\$104,425</u>
31	Over \$148,675 <u>\$186,475</u>	\$6,269.73 <u>\$7,862.85</u> plus 5.54% of amount

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1		over \$148,675 <u>\$186,475</u>
2	d. Head of household.	
3	If North Dakota taxable income is:	The tax is equal to:
4	Not over \$36,250 <u>\$45,500</u>	2.40% <u>2.099%</u>
5	Over \$36,250 <u>\$45,500</u> but not over	\$761.25 <u>\$955.05</u> plus 3.92% of amount
6	\$93,650 <u>\$117,450</u>	over \$36,250 <u>\$45,500</u>
7	Over \$93,650 <u>\$117,450</u> but not over	\$3,011.33 <u>\$3,775.49</u> plus 4.34% of amount
8	\$151,650 <u>\$190,200</u>	over \$93,650 <u>\$117,450</u>
9	Over \$151,650 <u>\$190,200</u> but not over	\$5,528.53 <u>\$6,932.84</u> plus 5.04% of amount
10	\$297,350 <u>\$372,950</u>	over \$151,650 <u>\$190,200</u>
11	Over \$297,350 <u>\$372,950</u>	\$12,871.81 <u>\$16,143.44</u> plus 5.54% of amount
12		over \$297,350 <u>\$372,950</u>
13	e. Estates and trusts.	
14	If North Dakota taxable income is:	The tax is equal to:
15	Not over \$1,800 <u>\$2,300</u>	2.40% <u>2.099%</u>
16	Over \$1,800 <u>\$2,300</u> but not over	\$37.80 <u>\$48.28</u> plus 3.92% of amount
17	\$4,250 <u>\$5,350</u>	over \$1,800 <u>\$2,300</u>
18	Over \$4,250 <u>\$5,350</u> but not over	\$133.84 <u>\$167.84</u> plus 4.34% of amount
19	\$6,500 <u>\$8,200</u>	over \$4,250 <u>\$5,350</u>
20	Over \$6,500 <u>\$8,200</u> but not over	\$231.49 <u>\$291.53</u> plus 5.04% of amount
21	\$8,900 <u>\$11,150</u>	over \$6,500 <u>\$8,200</u>
22	Over \$8,900 <u>\$11,150</u>	\$352.45 <u>\$440.21</u> plus 5.54% of amount
23		over \$8,900 <u>\$11,150</u>
24	f. For an individual who is not a resident of this state for the entire year, or for a	
25	nonresident estate or trust, the tax is equal to the tax otherwise computed	
26	under this subsection multiplied by a fraction in which:	
27	(1) The numerator is the federal adjusted gross income allocable and	
28	apportionable to this state; and	
29	(2) The denominator is the federal adjusted gross income from all sources	
30	reduced by the net income from the amounts specified in subdivisions a	
31	and b of subsection 2.	

1 In the case of married individuals filing a joint return, if one spouse is a
2 resident of this state for the entire year and the other spouse is a nonresident
3 for part or all of the tax year, the tax on the joint return must be computed
4 under this subdivision.

- 5 g. For taxable years beginning after December 31, 2001, the tax commissioner
6 shall prescribe new rate schedules that apply in lieu of the schedules set forth
7 in subdivisions a through e. The new schedules must be determined by
8 increasing the minimum and maximum dollar amounts for each income
9 bracket for which a tax is imposed by the cost-of-living adjustment for the
10 taxable year as determined by the secretary of the United States treasury for
11 purposes of section 1(f) of the United States Internal Revenue Code of 1954,
12 as amended. For this purpose, the rate applicable to each income bracket
13 may not be changed, and the manner of applying the cost-of-living adjustment
14 must be the same as that used for adjusting the income brackets for federal
15 income tax purposes.

- 16 2. For purposes of this section, "North Dakota taxable income" means the federal
17 taxable income of an individual, estate, or trust as computed under the Internal
18 Revenue Code of 1986, as amended, adjusted as follows:

- 19 a. Reduced by interest income from obligations of the United States and income
20 exempt from state income tax under federal statute or United States or North
21 Dakota constitutional provisions.
- 22 b. Reduced by the portion of a distribution from a qualified investment fund
23 described in section 57-38-01 which is attributable to investments by the
24 qualified investment fund in obligations of the United States, obligations of
25 North Dakota or its political subdivisions, and any other obligation the interest
26 from which is exempt from state income tax under federal statute or United
27 States or North Dakota constitutional provisions.
- 28 c. Reduced by the amount equal to the earnings that are passed through to a
29 taxpayer in connection with an allocation and apportionment to North Dakota
30 under chapter 57-35.3.

- 1 d. Reduced by thirty percent of the excess of the taxpayer's net long-term capital
2 gain for the taxable year over the net short-term capital loss for that year, as
3 computed for purposes of the Internal Revenue Code of 1986, as amended.
4 The adjustment provided by this subdivision is allowed only to the extent the
5 net long-term capital gain is allocated to this state.
- 6 e. Increased by the amount of a lump sum distribution for which income
7 averaging was elected under section 402 of the Internal Revenue Code of
8 1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the
9 taxpayer received the lump sum distribution while a nonresident of this state
10 and the distribution is exempt from taxation by this state under federal law.
- 11 f. Increased by an amount equal to the losses that are passed through to a
12 taxpayer in connection with an allocation and apportionment to North Dakota
13 under chapter 57-35.3.
- 14 g. Reduced by the amount received by the taxpayer as payment for services
15 performed when mobilized under title 10 United States Code federal service
16 as a member of the national guard or reserve member of the armed forces of
17 the United States. This subdivision does not apply to federal service while
18 attending annual training, basic military training, or professional military
19 education.
- 20 h. Reduced by income from a new and expanding business exempt from state
21 income tax under section 40-57.1-04.
- 22 i. Reduced by interest and income from bonds issued under chapter 11-37.
- 23 j. Reduced by up to ten thousand dollars of qualified expenses that are related
24 to a donation by a taxpayer or a taxpayer's dependent, while living, of one or
25 more human organs to another human being for human organ transplantation.
26 A taxpayer may claim the reduction in this subdivision only once for each
27 instance of organ donation during the taxable year in which the human organ
28 donation and the human organ transplantation occurs but if qualified
29 expenses are incurred in more than one taxable year, the reduction for those
30 expenses must be claimed in the year in which the expenses are incurred.
31 For purposes of this subdivision:

(1) "Human organ transplantation" means the medical procedure by which transfer of a human organ is made from the body of one person to the body of another person.

(2) "Organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow.

(3) "Qualified expenses" means lost wages not compensated by sick pay and unreimbursed medical expenses as defined for federal income tax purposes, to the extent not deducted in computing federal taxable income, whether or not the taxpayer itemizes federal income tax deductions.

k. Increased by the amount of the contribution upon which the credit under section 57-38-01.21 is computed, but only to the extent that the contribution reduced federal taxable income.

l. Reduced by the amount of any payment received by a veteran or beneficiary of a veteran under section 37-28-03 or 37-28-04.

m. Reduced by the amount received by a taxpayer that was paid by an employer under paragraph 4 of subdivision a of subsection 2 of section 57-38-01.25 to hire the taxpayer for a hard-to-fill position under section 57-38-01.25, but only to the extent the amount received by the taxpayer is included in federal taxable income. The reduction applies only if the employer is entitled to the credit under section 57-38-01.25. The taxpayer must attach a statement from the employer in which the employer certifies that the employer is entitled to the credit under section 57-38-01.25 and which specifically identified the type of payment and the amount of the exemption under this section.

n. Reduced by the amount up to a maximum of five thousand dollars, or ten thousand dollars if a joint return is filed, for contributions made under a higher education savings plan administered by the Bank of North Dakota, pursuant to section 6-09-38.

o. Reduced by the amount of income of a taxpayer, who resides within the boundaries of any reservation in this state and who is an enrolled member of

1 a federally recognized Indian tribe, from activities or sources within the
2 boundaries of any reservation in this state.

- 3 3. Married individuals filing a joint federal income tax return shall file a joint state
4 income tax return if the return is filed under this section. If separate federal income
5 tax returns are filed, one spouse's state income tax return may be filed under this
6 section and the other spouse's income tax return may be filed under the other
7 provisions of this chapter.

- 8 4. a. A resident individual, estate, or trust is entitled to a credit against the tax
9 imposed under this section for the amount of income tax paid by the taxpayer
10 for the taxable year by another state or territory of the United States or the
11 District of Columbia on income derived from sources in those jurisdictions that
12 is also subject to tax under this section.

- 13 b. For an individual, estate, or trust that is a resident of this state for the entire
14 taxable year, the credit allowed under this subsection may not exceed an
15 amount equal to the tax imposed under this section multiplied by a ratio equal
16 to federal adjusted gross income derived from sources in the other jurisdiction
17 divided by federal adjusted gross income less the amounts under
18 subdivisions a and b of subsection 2.

- 19 c. For an individual, estate, or trust that is a resident of this state for only part of
20 the taxable year, the credit allowed under this subsection may not exceed the
21 lesser of the following:

- 22 (1) The tax imposed under this chapter multiplied by a ratio equal to federal
23 adjusted gross income derived from sources in the other jurisdiction
24 received while a resident of this state divided by federal adjusted gross
25 income derived from North Dakota sources less the amounts under
26 subdivisions a and b of subsection 2.

- 27 (2) The tax paid to the other jurisdiction multiplied by a ratio equal to
28 federal adjusted gross income derived from sources in the other
29 jurisdiction received while a resident of this state divided by federal
30 adjusted gross income derived from sources in the other states.

- 1 d. The tax commissioner may require written proof of the tax paid to another
2 state. The required proof must be provided in a form and manner as
3 determined by the tax commissioner.
- 4 5. Individuals, estates, or trusts that file an amended federal income tax return
5 changing their federal taxable income figure for a year for which an election to file
6 state income tax returns has been made under this section shall file an amended
7 state income tax return to reflect the changes on the federal income tax return.
- 8 6. The tax commissioner may prescribe procedures and guidelines to prevent
9 requiring income that had been previously taxed under this chapter from becoming
10 taxed again because of the provisions of this section and may prescribe
11 procedures and guidelines to prevent any income from becoming exempt from
12 taxation because of the provisions of this section if it would otherwise have been
13 subject to taxation under the provisions of this chapter.
- 14 7. A taxpayer filing a return under this section is entitled to the following tax credits:
15 a. Family care tax credit under section 57-38-01.20.
16 b. Renaissance zone tax credits under sections 40-63-04, 40-63-06, and
17 40-63-07.
18 c. Agricultural business investment tax credit under section 57-38.6-03.
19 d. Seed capital investment tax credit under section 57-38.5-03.
20 e. Planned gift tax credit under section 57-38-01.21.
21 f. Biodiesel fuel tax credits under sections 57-38-01.22 and 57-38-01.23.
22 g. Internship employment tax credit under section 57-38-01.24.
23 h. Workforce recruitment credit under section 57-38-01.25.
24 i. Angel fund investment tax credit under section 57-38-01.26.
25 j. Microbusiness tax credit under section 57-38-01.27.
26 k. Marriage penalty credit under section 57-38-01.28.
27 l. Homestead income tax credit under section 57-38-01.29.
28 m. Commercial property income tax credit under section 57-38-01.30.
29 n. Research and experimental expenditures under section 57-38-30.5.
30 8. A taxpayer filing a return under this section is entitled to the exemption provided
31 under section 40-63-04.

- 1 9. a. If an individual taxpayer engaged in a farming business elects to average farm
2 income under section 1301 of the Internal Revenue Code [26 U.S.C. 1301],
3 the taxpayer may elect to compute tax under this subsection. If an election to
4 compute tax under this subsection is made, the tax imposed by subsection 1
5 for the taxable year must be equal to the sum of the following:
- 6 (1) The tax computed under subsection 1 on North Dakota taxable income
7 reduced by elected farm income.
- 8 (2) The increase in tax imposed by subsection 1 which would result if North
9 Dakota taxable income for each of the three prior taxable years were
10 increased by an amount equal to one-third of the elected farm income.
11 However, if other provisions of this chapter other than this section were
12 used to compute the tax for any of the three prior years, the same
13 provisions in effect for that prior tax year must be used to compute the
14 increase in tax under this paragraph. For purposes of applying this
15 paragraph to taxable years beginning before January 1, 2001, the
16 increase in tax must be determined by recomputing the tax in the
17 manner prescribed by the tax commissioner.
- 18 b. For purposes of this subsection, "elected farm income" means that portion of
19 North Dakota taxable income for the taxable year which is elected farm
20 income as defined in section 1301 of the Internal Revenue Code of 1986
21 [26 U.S.C. 1301], as amended, reduced by the portion of an exclusion
22 claimed under subdivision d of subsection 2 that is attributable to a net
23 long-term capital gain included in elected farm income.
- 24 c. The reduction in North Dakota taxable income under this subsection must be
25 taken into account for purposes of making an election under this subsection
26 for any subsequent taxable year.
- 27 d. The tax commissioner may prescribe rules, procedures, or guidelines
28 necessary to administer this subsection.
- 29 10. The tax commissioner may prescribe tax tables, to be used in computing the tax
30 according to subsection 1, if the amounts of the tax tables are based on the tax
31 rates set forth in subsection 1. If prescribed by the tax commissioner, the tables

must be followed by every individual, estate, or trust determining a tax under this section.

SECTION 23. AMENDMENT. Section 57-38-30.5 of the North Dakota Century Code is amended and reenacted as follows:

57-38-30.5. Income tax credit for research and experimental expenditures. A taxpayer is allowed a credit against the tax imposed under section ~~57-38-29~~, 57-38-30; or 57-38-30.3 for conducting qualified research in this state.

1. The amount of the credit for taxpayers that earned or claimed a credit under this section in taxable years beginning before January 1, 2007, is calculated as follows:

a. For the first taxable year beginning after December 31, 2006, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to seven and one-half percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

b. For the second taxable year beginning after December 31, 2006, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to eleven percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

c. For the third taxable year beginning after December 31, 2006, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to fourteen and one-half percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

d. For the fourth through the tenth taxable years beginning after December 31, 2006, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to eighteen percent

of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

e. For the eleventh taxable year beginning after December 31, 2006, and for each subsequent taxable year in which the taxpayer conducts qualified research in this state, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to eight percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

f. The maximum annual credit a taxpayer may obtain under this section is two million dollars. Any credit amount earned in the taxable year in excess of two million dollars may not be carried back or forward as provided in subsection 7.

2. For taxpayers that have not earned or claimed a credit under this section in taxable years beginning before January 1, 2007, and which begin conducting qualified research in North Dakota in any of the first four taxable years beginning after December 31, 2006, the amount of the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to twenty percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

a. This rate applies through the tenth taxable year beginning after December 31, 2006.

b. For the eleventh taxable year beginning after December 31, 2006, and for each subsequent taxable year in which the taxpayer conducts qualified research in this state, the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to eight percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

3. For taxpayers that have not earned or claimed a credit under this section in taxable years beginning before January 1, 2007, and which begin conducting qualified

research in North Dakota in any taxable year following the fourth taxable year beginning after December 31, 2006, the amount of the credit is equal to twenty-five percent of the first one hundred thousand dollars of the qualified research expenses for the taxable year in excess of the base period research expenses and equal to eight percent of all qualified research expenses for the taxable year more than one hundred thousand dollars in excess of the base period research expenses.

4. For purposes of this section:

- a. "Base period research expenses" means base period research expenses as defined in section 41(c) of the Internal Revenue Code [26 U.S.C. 41(c)], except it does not include research conducted outside the state of North Dakota.
- b. "Director" means the director of the department of commerce division of economic development and finance.
- c. "Primary sector business" means a qualified business that through the employment of knowledge or labor adds value to a product, process, or service.
- d. "Qualified research" means qualified research as defined in section 41(d) of the Internal Revenue Code [26 U.S.C. 41(d)], except it does not include research conducted outside the state of North Dakota.
- e. "Qualified research and development company" means a taxpayer that is a primary sector business with annual gross revenues of less than seven hundred fifty thousand dollars and which has not conducted new research and development in North Dakota.
- f. "Qualified research expenses" means qualified research expenses as defined in section 41(b) of the Internal Revenue Code [26 U.S.C. 41(b)], except it does not include expenses incurred for basic research conducted outside the state of North Dakota.

5. The credit allowed under this section for the taxable year may not exceed the liability for tax under this chapter.

- 1 6. In the case of a taxpayer that is a partner in a partnership or a member in a limited
2 liability company, the credit allowed for the taxable year may not exceed an
3 amount separately computed with respect to the taxpayer's interest in the trade,
4 business, or entity equal to the amount of tax attributable to that portion of the
5 taxpayer's taxable income which is allocable or apportionable to the taxpayer's
6 interest in the trade, business, or entity.
- 7 7. Except as provided in subsection 1, if the amount of the credit determined under
8 this section for any taxable year exceeds the limitation under subsection 5, the
9 excess may be used as a research credit carryback to each of the three preceding
10 taxable years and a research credit carryover to each of the fifteen succeeding
11 taxable years. The entire amount of the excess unused credit for the taxable year
12 must be carried first to the earliest of the taxable years to which the credit may be
13 carried and then to each successive year to which the credit may be carried and
14 the amount of the unused credit which may be added under this subsection may
15 not exceed the taxpayer's liability for tax less the research credit for the taxable
16 year.
- 17 8. A taxpayer that is certified as a qualified research and development company by
18 the director may elect to sell, transfer, or assign all or part of the unused tax credit
19 earned under this section. The director shall certify whether a taxpayer that has
20 requested to become a qualified research and development company meets the
21 requirements of subsection 4. The director shall establish the necessary forms and
22 procedures for certifying qualifying research and development companies. The
23 director shall issue a certification letter to the taxpayer and the tax commissioner.
24 A tax credit can be sold, transferred, or assigned subject to the following:
25 a. A taxpayer's total credit assignment under this section may not exceed one
26 hundred thousand dollars over any combination of taxable years.
27 b. If the taxpayer elects to assign or transfer an excess credit under this
28 subsection, the tax credit transferor and the tax credit purchaser jointly shall
29 file with the tax commissioner a copy of the purchase agreement and a
30 statement containing the names, addresses, and taxpayer identification
31 numbers of the parties to the transfer, the amount of the credit being

1 transferred, the gross proceeds received by the transferor, and the taxable
2 year or years for which the credit may be claimed. The taxpayer and the
3 purchaser also shall file a document allowing the tax commissioner to disclose
4 tax information to either party for the purpose of verifying the correctness of
5 the transferred tax credit. The purchase agreement, supporting statement,
6 and waiver must be filed within thirty days after the date the purchase
7 agreement is fully executed.

8 c. The purchaser of the tax credit shall claim the credit beginning with the
9 taxable year in which the credit purchase agreement was fully executed by
10 the parties. A purchaser of a tax credit under this section has only such rights
11 to claim and use the credit under the terms that would have applied to the tax
12 credit transferor, except the credit purchaser may not carry back the credit as
13 otherwise provided in this section. This subsection does not limit the ability of
14 the tax credit purchaser to reduce the tax liability of the purchaser, regardless
15 of the actual tax liability of the tax credit transferor.

16 d. The original purchaser of the tax credit may not sell, assign, or otherwise
17 transfer the credit purchased under this section.

18 e. If the amount of the credit available under this section is changed as a result
19 of an amended return filed by the transferor, or as the result of an audit
20 conducted by the internal revenue service or the tax commissioner, the
21 transferor shall report to the purchaser the adjusted credit amount within thirty
22 days of the amended return or within thirty days of the final determination
23 made by the internal revenue service or the tax commissioner. The tax credit
24 purchaser shall file amended returns reporting the additional tax due or
25 claiming a refund as provided in section 57-38-38 or 57-38-40, and the tax
26 commissioner may audit these returns and assess or issue refunds, even
27 though other time periods prescribed in these sections may have expired for
28 the purchaser.

29 f. Gross proceeds received by the tax credit transferor must be assigned to
30 North Dakota. The amount assigned under this subsection cannot be

reduced by the taxpayer's income apportioned to North Dakota or any North Dakota net operating loss of the taxpayer.

g. The tax commissioner has four years after the date of the credit assignment to audit the returns of the credit transferor and the purchaser to verify the correctness of the amount of the transferred credit and if necessary assess the credit purchaser if additional tax is found due. This subdivision does not limit or restrict any other time period prescribed in this chapter for the assessment of tax.

h. The tax commissioner may adopt rules to permit verification of the validity and timeliness of the transferred tax credit.

9. If a taxpayer acquires or disposes of the major portion of a trade or business or the major portion of a separate unit of a trade or business in a transaction with another taxpayer, the taxpayer's qualified research expenses and base period must be adjusted in the manner provided by section 41(f)(3) of the Internal Revenue Code [26 U.S.C. 41(f)(3)].

10. If a taxpayer entitled to the credit provided by this section is a member of a group of corporations filing a North Dakota consolidated tax return using the combined reporting method, the credit may be claimed against the aggregate North Dakota tax liability of all the corporations included in the North Dakota consolidated return. This section does not apply to tax credits received or purchased under subsection 8.

11. An individual, estate, or trust that purchases a credit under this section is entitled to claim the credit against state income tax liability under section ~~57-38-29 or~~ 57-38-30.3.

12. A partnership, subchapter S corporation, limited partnership, limited liability company, or any other passthrough entity entitled to the credit under this section must be considered to be the taxpayer for purposes of calculating the credit. The amount of the allowable credit must be determined at the passthrough entity level. The total credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the passthrough entity. An individual taxpayer may take the credit passed through

under this subsection against the individual's state income tax liability under
~~sections 57-38-29 and 57-38-30~~ section 57-38-30.3.

SECTION 24. AMENDMENT. Section 57-38-31 of the North Dakota Century Code is
amended and reenacted as follows:

57-38-31. Duty of individuals and fiduciaries to make return.

1. Every resident individual, every fiduciary for a resident individual, estate, or trust,
who is required by the provisions of the United States Internal Revenue Code of
1954, as amended, to file a federal income tax return, and every individual or
fiduciary who receives income derived from sources in this state, shall file an
income tax return with the state tax commissioner in such form as the
commissioner may prescribe. Any person who is required to file a state income tax
return but not required to compute a federal taxable income figure for federal
income tax purposes is required to compute such a federal taxable income figure
using a pro forma return pursuant to the provisions of the Internal Revenue Code
of 1954, as amended, in order to determine a starting point for the computation of
state income tax. Any person required to file an income tax return pursuant to the
provisions of the United States Internal Revenue Code of 1954, as amended, with
respect to income that is exempt from taxation under this chapter either because it
cannot be constitutionally taxed or because it is exempt by any provision of law
shall file a return prescribed by the tax commissioner in such form as will permit
computation of the tax liability under this chapter on only that part of the income
which is subject to taxation pursuant to the provisions of this chapter; provided, that
such person elects to use that form of return rather than any other form of return
that may be prescribed. The return must be signed by the person required to make
it and must contain a written declaration that it is made and subscribed under
penalties of perjury.
- ~~2. The same filing status and deduction method used by a husband and wife when
filing federal income tax returns must be used when filing state income tax returns.~~
- ~~3.~~ If the taxpayer is unable to make the taxpayer's own return, the return must be
made by a duly authorized agent or by a guardian or other person charged with the
care of the person or property of the taxpayer.

1 4- 3. Every fiduciary subject to taxation under the provisions of this chapter shall make a
2 return for the individual, estate, or trust for which the fiduciary acts; the return must
3 be signed by the person required to make it and must contain a written declaration
4 that it is made and subscribed under penalties of perjury.

5 5- 4. The return made by a fiduciary must state such facts as the tax commissioner may
6 prescribe.

7 6- 5. A fiduciary required to make a return under this chapter is subject to all of the
8 provisions of the chapter which apply to an individual.

9 7- 6. If required by the tax commissioner, the return must be accompanied by a true
10 copy of the federal income tax return of the taxpayer or by equivalent information in
11 the form and manner prescribed by the tax commissioner. A true copy of the
12 federal income tax return of the taxpayer or equivalent information must be
13 furnished to the tax commissioner by the taxpayer or fiduciary at any time after
14 filing of the return required by this chapter if so required by the tax commissioner.

15 8- 7. The tax commissioner may prescribe alternative methods for signing, subscribing,
16 or verifying a return filed by electronic means, including telecommunications, that
17 shall have the same validity and consequence as the actual signature and written
18 declaration for a paper return.

19 **SECTION 25. AMENDMENT.** Section 57-38.5-03 of the North Dakota Century Code is
20 amended and reenacted as follows:

21 **57-38.5-03. Seed capital investment tax credit.** If a taxpayer makes a qualified
22 investment in a qualified business, the taxpayer is entitled to a credit against state income tax
23 liability under section ~~57-38-29~~, 57-38-30; or 57-38-30.3.

24 1. The amount of the credit to which a taxpayer is entitled is forty-five percent of the
25 amount invested by the taxpayer in qualified businesses during the taxable year.

26 2. The maximum annual credit a taxpayer may claim under this section is not more
27 than one hundred twelve thousand five hundred dollars. This subsection may not
28 be interpreted to limit additional investment by a taxpayer for which that taxpayer is
29 not applying for a credit.

- 1 3. Any amount of credit under subsection 1 not allowed because of the limitation in
2 subsection 2 may be carried forward for up to four taxable years after the taxable
3 year in which the investment was made.
- 4 4. A passthrough entity that invests in a qualified business must be considered to be
5 the taxpayer for purposes of the investment limitations in this section and the
6 amount of the credit allowed with respect to a passthrough entity's investment in a
7 qualified business must be determined at the passthrough entity level. The amount
8 of the total credit determined at the passthrough entity level must be allowed to the
9 members in proportion to their respective interests in the passthrough entity.
- 10 5. An investment made in a qualified business from the assets of a retirement plan is
11 deemed to be the retirement plan participant's investment for the purpose of this
12 chapter if a separate account is maintained for the plan participant and the
13 participant directly controls where the account assets are invested.
- 14 6. The investment must be made on or after the certification effective date and must
15 be at risk in the business to be eligible for the tax credit under this section. An
16 investment for which a credit is received under this section must remain in the
17 business for at least three years. Investments placed in escrow do not qualify for
18 the credit.
- 19 7. The entire amount of an investment for which a credit is claimed under this section
20 must be expended by the qualified business for plant, equipment, research and
21 development, marketing and sales activity, or working capital for the qualified
22 business.
- 23 8. A taxpayer who owns a controlling interest in the qualified business or who
24 receives more than fifty percent of the taxpayer's gross annual income from the
25 qualified business is not entitled to a credit under this section. A member of the
26 immediate family of a taxpayer disqualified by this subsection is not entitled to the
27 credit under this section. For purposes of this subsection, "immediate family"
28 means the taxpayer's spouse, parent, sibling, or child or the spouse of any such
29 person.
- 30 9. The tax commissioner may disallow any credit otherwise allowed under this section
31 if any representation by a business in the application for certification as a qualified

business proves to be false or if the taxpayer or qualified business fails to satisfy any conditions under this section or any conditions consistent with this section otherwise determined by the tax commissioner. The commissioner has four years after the due date of the return or after the return was filed, whichever period expires later, to audit the credit and assess additional tax that may be found due to failure to comply with the provisions of this chapter. The amount of any credit disallowed by the tax commissioner that reduced the taxpayer's income tax liability for any or all applicable tax years, plus penalty and interest as provided under section 57-38-45, must be paid by the taxpayer.

10. An angel fund that invests in a qualified business must be considered to be the taxpayer for purposes of the investment limitations in this section. The amount of the credit allowed with respect to an angel fund's investment in a qualified business must be determined at the angel fund level. The amount of the total credit determined at the angel fund level must be allowed to the investors in the angel fund in proportion to the investor's respective interests in the fund. An angel fund that is subject to the tax imposed under chapter 57-38 is not eligible for the investment tax credit under this chapter.

SECTION 26. AMENDMENT. Section 57-38.6-03 of the North Dakota Century Code is amended and reenacted as follows:

57-38.6-03. Agricultural business investment tax credit. If a taxpayer makes a qualified investment in a qualified business, the taxpayer is entitled to a credit against state income tax liability as determined under section ~~57-38-29~~, 57-38-30, or 57-38-30.3.

1. The amount of the credit to which a taxpayer is entitled is thirty percent of the amount invested by the taxpayer in qualified businesses during the taxable year.
2. The maximum annual credit a taxpayer may obtain under this section is fifty thousand dollars and no taxpayer may obtain more than two hundred fifty thousand dollars in credits under this section over any combination of taxable years. This subsection may not be interpreted to limit additional investment by a taxpayer for which that taxpayer is not applying for a credit.
3. The credit under this section may not exceed the liability for tax under chapter 57-38. If the amount of credit under this section exceeds the liability for tax, the

1 excess may be carried forward for up to ten taxable years after the taxable year in
2 which the investment was made.

3 4. A partnership, subchapter S corporation, limited liability company that for tax
4 purposes is treated like a partnership, or any other passthrough entity that invests
5 in a qualified business must be considered to be the taxpayer for purposes of the
6 investment limitations in this section and, except for the tax liability limitation under
7 subsection 2, the amount of the credit allowed with respect to the passthrough
8 entity's investment in a qualified business must be determined at the passthrough
9 entity level. The amount of the total credit determined at the passthrough entity
10 level must be allowed to the passthrough entity's owners, in proportion to their
11 respective ownership interests in the passthrough entity.

12 5. An investment made in a qualified business from the assets of a retirement plan is
13 deemed to be the retirement plan participant's investment for the purposes of this
14 chapter if a separate account is maintained for the plan participant and the
15 participant directly controls where the account assets are invested.

16 6. The investment must be made on or after the certification effective date and must
17 be at risk in the business to be eligible for the tax credit under this section. A
18 qualified investment must be in the form of a purchase of ownership interests or
19 the right to receive payment of dividends from the business. An investment for
20 which a credit is received under this section must remain in the business for at
21 least three years. An investment placed in escrow does not qualify for the credit.

22 7. The entire amount of an investment for which a credit is claimed under this section
23 must be expended by the qualified business for plant, equipment, research and
24 development, marketing and sales activity, or working capital for the qualified
25 business. Real property that qualifies as an investment must be used in, and be
26 an integral part of, the qualified business's North Dakota business operations.

27 8. If the investment is a contribution of real property:

28 a. The value of the contribution may not exceed the appraised value as
29 established by a licensed or certified appraiser licensed or certified under the
30 requirements of sections 43-23.3-04, 43-23.3-04.1, 43-23.3-05, 43-23.3-06,
31 43-23.3-07, 43-23.3-08, 43-23.3-09, 43-23.3-10, 43-23.3-11, and 43-23.3-12.

1 b. The value of the contribution must be approved by the governing body of the
2 qualified business applying the valuation standards set forth in subsection 3 of
3 section 10-19.1-63.

4 c. The qualified business receiving the contribution of real property shall provide
5 to the tax commissioner a copy of the appraised valuation, a copy of the
6 governing body's resolution approving the value of the contribution, and a
7 copy of the statement of full consideration within thirty days after the
8 instrument transferring title to the real property is recorded with the register of
9 deeds as provided in chapter 47-19.

10 d. A taxpayer making a contribution of real property is entitled to the tax credit in
11 the taxable year in which the instrument transferring title to the real property is
12 recorded with the register of deeds as provided in chapter 47-19.

13 9. The tax commissioner may disallow any credit otherwise allowed under this section
14 if any representation by a business in the application for certification as a qualified
15 business proves to be false or if the taxpayer or qualified business fails to satisfy
16 any conditions under this section or any conditions consistent with this section
17 otherwise determined by the tax commissioner. The amount of any credit
18 disallowed by the tax commissioner that reduced the taxpayer's income tax liability
19 for any or all applicable tax years, plus penalty and interest provided under section
20 57-38-45, must be paid by the taxpayer.

21 **SECTION 27. REPEAL.** Sections 57-38-01.2, 57-38-01.18, 57-38-06.1, 57-38-29,
22 57-38-29.2, 57-38-30.4, 57-38-67, 57-38-68, 57-38-69, and 57-38-70 of the North Dakota
23 Century Code are repealed.

24 **SECTION 28. EFFECTIVE DATE.** This Act is effective for taxable years beginning
25 after December 31, 2008.