



BUDGET PRESENTATION

HOUSE APPROPRIATIONS – GOVERNMENT OPERATIONS COMMITTEE
REPRESENTATIVE DAVID MONSON, CHAIRMAN

Agency Overview and Purpose

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

The agency is dedicated to fostering trust, transparency and accountability in the administration of tax in our state. Our office ensures the fair and efficient collection of various tax types and serves as an important resource to the public, while upholding the highest standards in integrity and professionalism.

Our office is the primary collection agency for general fund revenues for the state and statutory authority can be found in NDCC 57-01. In addition, our office has responsibilities related to the regulation of alcohol as outlined in NDCC 5-01, 5-02, 5-03.

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

Certain tax types, including electric transmission lines, 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 funding for local government.

Our objective is to support taxpayers with clear guidance, exceptional customer service, and by promoting voluntary compliance through education and outreach. We strive to implement a tax system that is equitable and responsive to the needs of citizens and businesses alike, in a manner that supports state economic growth and well-being.

Team Tax is organized into six specialized divisions, each focused on key aspects of our mission.

Commissioner Division

This division oversees the overall administration of the North Dakota Office of State Tax Commissioner, serving as the epicenter for agency operations and liaison to the public.

Fiscal Management Division

The financial cornerstone of the agency, handling revenue accounting, research, accounts payable, payroll, asset management, purchasing, and budgeting.

Information Management and Technology Division

Spearheading our technological initiatives, this division oversees digital offerings, safeguards taxpayer data and meticulously manages mail and processing operations.

Legal Division

Providing expert legal advice and services, this division ensures compliance with tax laws, offers litigation services, and supports the State Board of Equalization (SBOE) with exceptional counsel.

Tax Administration Division

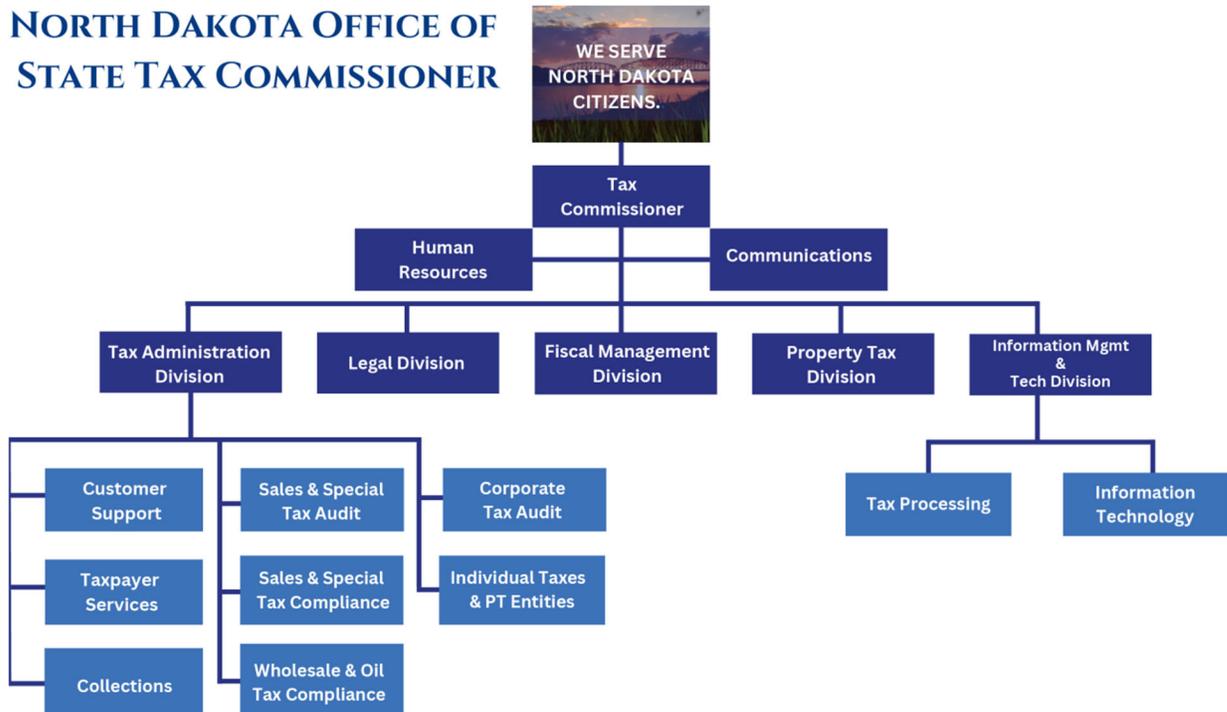
Dedicated to taxpayer education and compliance, this division administers an array of tax programs including individual and corporate income, sales and use, special taxes, oil & gas, motor fuel, alcohol, cigarette & tobacco taxes, and the collection of delinquent taxes.

Property Tax Division

This division oversees property and utility taxes, coal taxes, and various tax credit programs, including the Homestead Tax Credit, Renter Refund Program, Disabled Veteran Tax Credit Program, and Primary Residence Credit Program (PRC). This team also provides exemplary administrative and technical support to the SBOE.

Organizational Chart 117 Funded FTE's

NORTH DAKOTA OFFICE OF STATE TAX COMMISSIONER



Audit Findings

The operational audit for the Office of State Tax Commissioner conducted by the State Auditor's Office during the 2023-2025 interim identified no significant findings and one recommendation, that our office enhance monitoring procedures to include reviewing individuals' eligibility as determined by the respective county for the Homestead Property Tax Credit and Disabled Veteran Tax Credit Programs.

Agency response: "The Office of State Tax Commissioner appreciates the recommendation. While there is no statutory requirement for the Office of the State Tax Commissioner to monitor county-determined eligibility for the Homestead Property Tax Credit and the Disabled Veteran Tax Credit Programs, we are exploring potential mechanisms to further enhance fraud and risk mitigation in this area."

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.

Digital Transformation - Automating Processes and Procedures

The agency continues to enhance digital offerings and improve electronic processes in a continuous effort to improve citizen experience, leveraging our GenTax and "Taxpayer Access Point" (TAP) tax administration systems. Taxpayers are able to utilize these offerings in a multitude of beneficial ways, at any time.

Over the past several years in particular, our agency has successfully transitioned sales tax account holders from paper to the electronic filing of monthly, quarterly and annual returns. Currently, approximately 47,000 registered accounts utilize our digital offering in this area.

One of many examples related to advancements in digital offerings includes the unclaimed/uncashed check process. Once largely manual, we transitioned to a taxpayer friendly, electronic process, through NDTAP resulting in a streamlined method for payment reissuance to taxpayers. Not only did this result in internal savings but provided a timelier means to reissue funds to citizens. Further, it has significantly reduced the amount of taxpayer dollars transferred to unclaimed property.

Our efforts have resulted in the return of \$6.2 million to taxpayers since 2022. Of the 83,919 checks issued in FY2022 only 2.34% went to unclaimed property. Our agency continues to promote electronic payments for refunds to taxpayers through education and outreach to reduce the number of physical checks issued.

The following note was received from a taxpayer on the uncashed check process who received a reminder letter for an uncashed check:

Thank You!

I was unable to deposit your first check because [REDACTED] Estate was one of the 2 Payees and the bank had no account with that listing. I'm very impressed by your

diligence in pursuing this manner! Good for you! Good for North Dakota! (I shredded the original check!)

Primary Residence Credit Program

The Primary Residence Tax Credit (PRC) was established during the 2023 Legislative Session under House Bill 1158 for property tax years 2024 & 2025.

Our agency implemented a user-friendly and efficient online application process through GenTax, including real-time verification for the 138,124 applicants received, while also answering over 24,000 phone calls.

Marketing efforts included providing program brochures to counties for inclusion in property tax statements, newspaper, TV, radio and social media ad placement, demographic and geographic marketing, through a tailored approach to effectively reach ND property owners throughout the process.

The agency received a 99% approval rating of the process on surveys conducted at the completion of the application process. Comments received include:

- *Very quick and easy! Thank you!*
- ***"The application process was very easy to fill out."***
- *"Very easy process, especially for older homeowners, thank you!"*
- *"Thank you for making submitting an application for a 2nd year so easy!!!!!"*

Fraud Prevention & Data Security

The agency partners with the IRS, tax industry, and other stakeholders to ensure that all confidential information is kept secure. The most recent audit conducted by the IRS in 2022 found no critical findings. The next agency audit is scheduled for 2025.

The agency constantly utilizes fraud detection and prevention tactics to identify and investigate potentially fraudulent activity. Because fraud threats and activity are continuously changing, the agency places a very high priority on data security.

Staff Recruitment, Retention and Agency Culture

The agency is focused on retaining talent and fostering a culture that supports professional growth and development, values employee engagement, and works to be an employer of choice. The 2023 Gallup Employee Engagement Survey reflected an overall employee engagement score increase, from 3.77 to 3.91. Our 2024 score was equally strong.

Our agency recruitment efforts focus on finding the right individuals for our culture, emphasizing the importance of the work we do. As a result of these efforts, turnover has decreased significantly, with fewer open positions than in prior years.

Challenges

Future challenges affecting the Office of State Tax Commissioner include:

Employee Recruitment, Retention, and Compensation

Customer service remains a top priority. To continue to provide exceptional customer service to taxpayers, effective recruitment, training and retention is key.

Team members are required to have a thorough and specialized knowledge of the many different tax types we administer. While the Office of State Tax Commissioner received equity dollars in the 2023-2025 biennium, we still have critical positions that remain below the state compensation average for comparable positions. That scenario continues to put various positions at risk from a recruitment and retention standpoint.

The retention of experienced team members is extremely beneficial in many ways. Tenured team members serve as mentors to new employees, which in turn prepares them to become future mentors as well, enhancing our ability to continue providing the highest level of service to the citizens of North Dakota.

It is essential that we remain effectively staffed in order to:

- Provide timely and effective delivery of services provided
- Process returns in a timely manner to avoid state liability for interest due on refunds
- Conduct fair, accurate and effective audits
- Educate taxpayers to ensure compliance with North Dakota tax law

Retaining qualified and experienced team members is critical. Fewer team members resulting from a reduction in FTE's over time, has meant the absorption of essential job duties by remaining team members. Current biennium staffing challenges have required reallocating resources from audit and compliance activities to processing amended returns, issuing refunds, discovery efforts, and other administrative functions.

As the rate of digital adoption by taxpayers continues to increase, so does the skillset necessary to meet and exceed their expectations. As we embrace our digital future, transforming not only processes, but staff specialists, is essential. Effectively addressing present-day taxpayer needs and capitalizing on new opportunities through technology, will continue to be a focal point at our agency.

Digital Transformation and IT Costs

Approximately 74% of the agency's operational expense consists of IT/Technology costs for GenTax, North Dakota Information Technology (NDIT) provided services and software and IT service providers.

The GenTax software platform is the "nerve center" of the agency, combined with Taxpayer Access Point, giving taxpayers the opportunity to interact with and utilize services provided by our agency, in a digital manner.

GenTax played a key role in the Primary Residence Credit application process, enhancing our ability to effectively interact with taxpayers and county partners. The complexity and depth of GenTax requires ongoing support from FAST Enterprises (FAST) to maintain GenTax and NDTAP and ensure we remain current with new technology, tools, and security protocols. The GenTax maintenance support is 54% of the agency's operating budget.

In addition to GenTax costs, fees paid to NDIT represent a significant portion of the agency's operating budget to support electronic offerings and advance our digital portfolio.

Safeguarding Data and Fraud Prevention

Safeguarding taxpayer information and data is a core competency of the agency. With more taxpayers filing electronically, maintaining and developing new safeguards to protect sensitive information is critical.

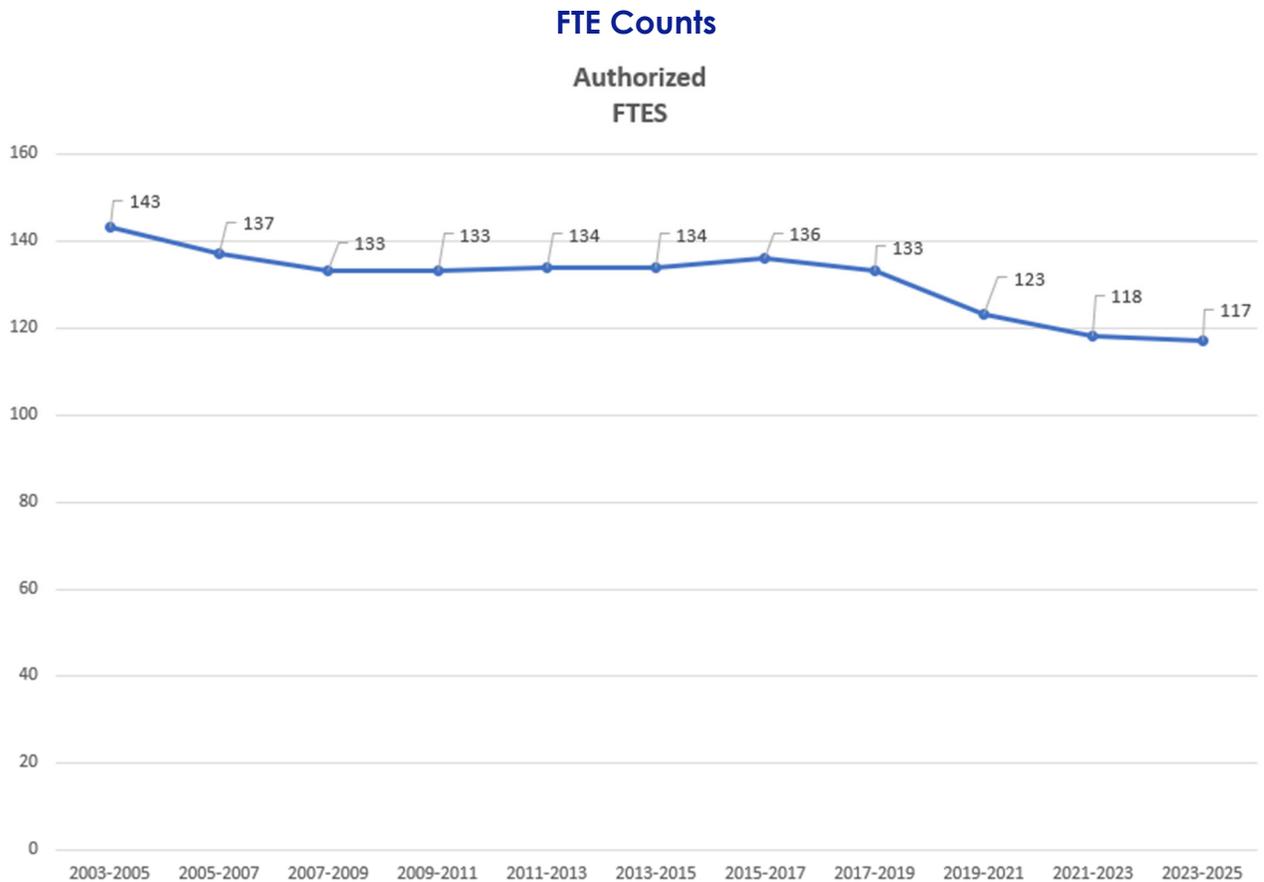
Safeguarding data is an investment in taxpayer trust. Training and retaining team members are critical to combat constantly evolving and ever-changing fraudulent activity. We continuously monitor potential threats in order to protect the taxpayers of North Dakota. Services provided by both NDIT and FAST are critical components of this effort as they provide security updates and support in this important area.

New/Changing Tax Types

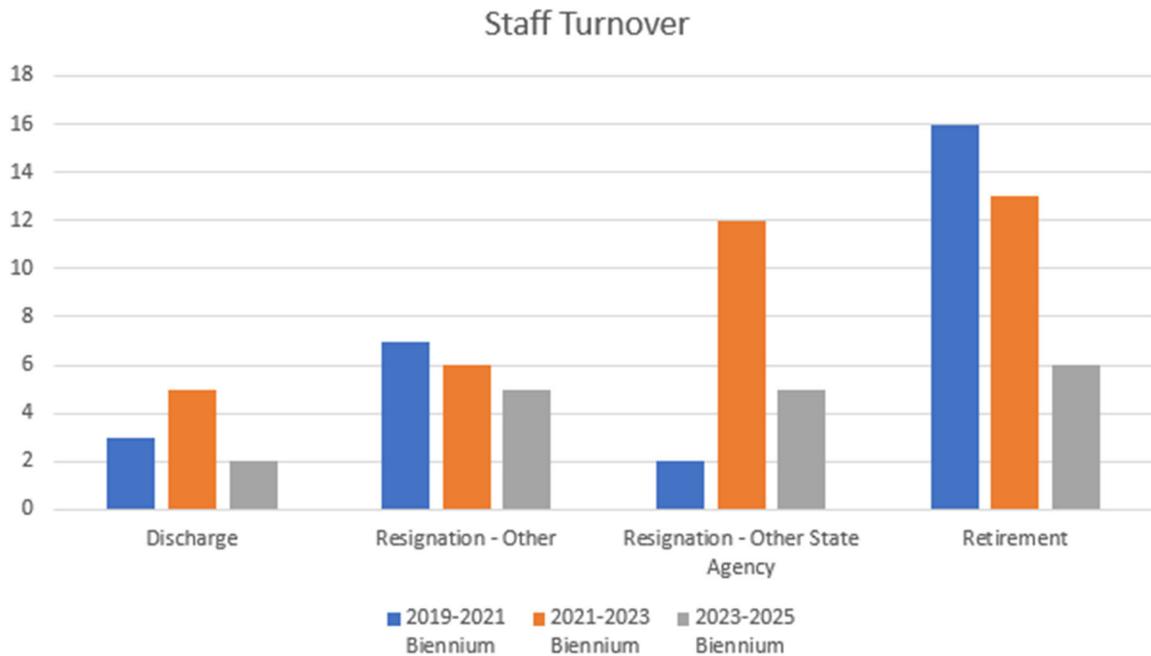
The regular addition of new tax types or changes to existing ones further underscores the need to respond accordingly from a staffing and expertise standpoint including:

- 1) The need for additional staff to administer new and changing tax types.
- 2) Technology enhancements or customizations to GenTax that aren't covered under our maintenance contract and would require additional appropriated dollars to support the implementation and administration of any new tax type (ex. marijuana, changes to oil taxation, property tax, etc.).

Staffing Review



Staff Turnover Analysis



Vacant Positions & Vacancy Funding Pool

The agency had \$1,285,846 transferred to the 2023-2025 appropriations for the vacancy funding pool.

The agency has averaged 7 vacant positions throughout the 2023-2025 biennium because of staff turnover and in particular, retirements. As of 01/06/2025 the agency has 7 vacant positions which we are actively recruiting to fill.

The implementation of the vacancy funding pool has not impacted hiring practices for the agency to date.

Vacant Postions



Agency 2023-2025 Legislative Base, 2025-2027 Budget Request, and 2025-2027 Executive Budget

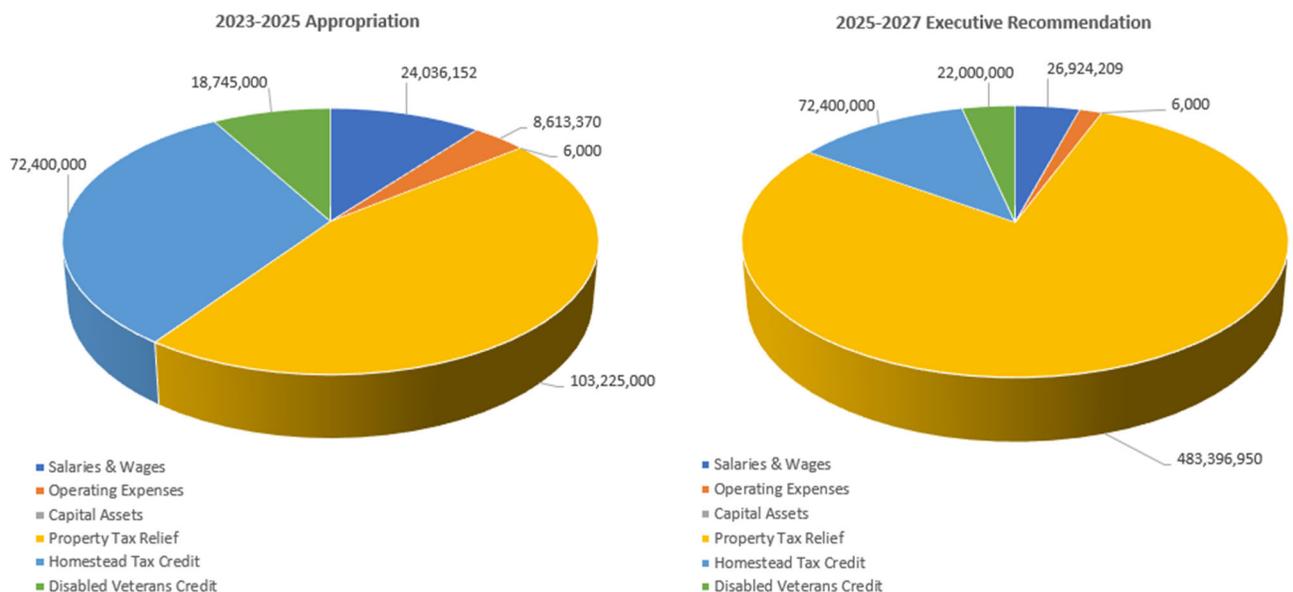
Description/ Object Series	2023 - 2025 Legislative Base	2025-2027 Budget Request	Burgum 2025-2027 Executive Recommendation	Armstrong 2025-2027 Executive Recommendation
Salaries & Wages	24,036,152	25,806,831	27,393,835	26,924,209
Operating Expenses	8,613,370	9,438,111	14,438,111	9,438,111
Capital Assets	6,000	6,000	6,000	6,000
Property Tax Relief	103,225,000	77,500,000	77,500,000	483,396,950
Homestead Tax Credit	72,400,000	48,000,000	48,000,000	72,400,000
Disabled Veterans Credit	18,745,000	22,000,000	22,000,000	22,000,000
Total By Object	227,025,522	182,750,942	189,337,946	614,165,270
Less estimated Income	125,000	125,000	125,000	125,000
Total General Fund	226,900,522	182,625,942	184,212,946	440,643,320
Total Special Funds	-	-	5,000,000	173,396,950
Total Federal Funds	125,000	125,000	125,000	125,000
Total All Funds	227,025,522	182,750,942	189,337,946	614,165,270
# of FTE's	117	117	118	117

As an administrative agency we rely heavily on staff to meet our statutory obligation and perform the work the legislature has directed us to do. In direct correlation to that responsibility, approximately 74% of the current biennium operating budget is for salaries and wages. The appropriation for salaries and wages for the 2023-25 biennium is \$24 million.

The Office of State Tax Commissioner is authorized for 117 full-time equivalent positions for the 2023-25 biennium. Due to retirements of long-tenured employees and hiring delays related to a highly competitive recruiting environment, budget savings in salaries will be generated in the current biennium, although at a significantly reduced level in comparison to the previous biennium.

Budget Overview

Agency 2023-2025 Legislative Base and 2025-2027 Executive Budget



Agency Collections – Fiscal Years 2014 to 2024

DESCRIPTION	FY 2014 NET COLLECTIONS	FY 2024 NET COLLECTIONS	CHANGE
Sales & Use Tax	\$1,320,167,042	\$1,320,087,938	(\$79,104)
Motor Vehicle Excise Tax	\$225,363	\$923,530	\$698,167
Local Occupancy Tax	\$4,373,399	\$4,011,994	(\$361,405)
Local Sales Tax	\$228,776,287	\$367,978,411	\$139,202,124
Local Restaurant and Lodging Tax	\$6,327,731	\$11,061,323	\$4,733,592
Local Motor Vehicle Rental Tax	\$189,413	\$169,091	(\$20,322)
Individual Income Tax	\$516,139,885	\$356,913,752	(\$159,226,134)
Corporate Income Tax	\$239,404,247	\$277,392,914	\$37,988,667
Financial Institutions Tax	\$13,228,788	\$0	(\$13,228,788)
Cigarette Tax (Cities)	\$1,643,720	\$1,009,447	(\$634,274)
Cigarette Tax (Tribe)	\$68,792	\$74,041	\$5,249
Cigarette Tax (GF)	\$22,489,945	\$13,806,157	(\$8,683,788)
Tobacco Tax	\$7,032,346	\$6,822,401	(\$209,946)
Oil & Gas Gross Production Tax	\$1,492,982,452	\$1,694,376,429	\$201,393,977
Oil Extraction Tax	\$1,754,824,617	\$1,367,523,349	(\$387,301,268)
Telecommunications Tax	\$11,631,089	\$4,755,442	(\$6,875,646)
Wholesale Liquor/beer Tax	\$9,220,019	\$10,831,484	\$1,611,465
Estate Tax	\$14,466	\$0	(\$14,466)
Miscellaneous Remittances	\$9,399	\$20,529	\$11,129
Coal Severance Tax	\$11,233,707	\$9,465,362	(\$1,768,345)
Coal Conversion Tax	\$24,937,582	\$4,025,691	(\$20,911,891)
Electric Generation Tax	\$8,401,468	\$29,725,136	\$21,323,668
Music and Composition Tax	\$171,020	\$497,673	\$326,653
Sales & Use Tax Cash Bonds	\$494,640	(\$32,994)	(\$527,634)
Fuel Dealers & Inspection Fees	\$385,370	\$274,178	(\$111,192)
Motor Vehicle Fuel Tax	\$105,625,777	\$98,893,361	(\$6,732,416)
Special Fuel Tax	\$123,068,253	\$90,725,842	(\$32,342,411)
Motor Fuel Tax - Cash Bond	(\$108,600)	(\$495)	\$108,105
Nongame Wildlife Fund	\$29,698	\$27,989	(\$1,709)
Centennial Tree Trust Fund	\$31,226	\$33,366	\$2,140
Veterans' Postwar Trust Fund	\$0	\$28,545	\$28,545
Organ Transplant Support Fund	\$18,066	\$19,341	\$1,275
Airline Tax	\$178,594	\$228,408	\$49,813
Aircraft Excise Tax	\$0	\$12,959	\$12,959
Prepaid Wireless Emergency 911 Fee	\$135,643	\$992,686	\$857,044
Provider Assessment	\$5,901,063	\$6,780,907	\$879,844
TOTAL COLLECTIONS	\$5,909,252,509	\$5,679,456,185	(\$229,796,324)

Economic growth in the state has resulted in an increase in the number of filers and corresponding workload at our agency. The number of returns received for virtually all tax types continues to grow.

The following chart illustrates the changes in the number of returns received. Active oil rig counts are also included as our agency has administrative responsibilities for the collection of oil and gas extraction taxes, for each producing well.

Tax Type	2014	2019	2024	2014-2024 Increase (Decrease)	% Change over past 10 years
Sales Tax - Original returns filed	194,856	229,260	281,014	86,158	44.2%
Individual income tax withholding	148,213	153,175	181,673	33,460	22.6%
Individual income tax	480,903	472,742	474,650	(6,253)	-1.3%
Partnership and S Corp	38,835	43,971	48,267	9,432	24.3%
Corporate income tax	11,354	11,406	12,337	983	8.7%
Oil - Active wells	12,134	16,042	19,197	7,063	58.2%
Authorized FTE's	134	133	117	(17)	-12.7%

Potential Legislation Impacting 25-27 Budget

Various tax-related bill proposals including HB 1176 have the potential to significantly impact our agency if passed. Other new tax types or changes to existing tax law, may also impact agency functions. As these proposals are reviewed and discussed, we request consideration for any necessary funding to meet programming, staffing, administrative and compliance needs.

Federal Funding Changes

No changes in federal funding are expected for the 2025-27 biennium.

2023-2025 One Time Funding

Our agency received a one-time funding appropriation of \$500,000 for enhancements to GenTax, the software nerve center of the agency. Those resources have targeted city motor vehicle, electric generation, coal, motor vehicle excise, airline, and telecommunications tax types as well as SMS (Text) implementation. We anticipate utilizing the entire one-time funding appropriation received.

The agency also received a one-time funding appropriation of \$1,500,000 for the Primary Residence Credit Program for programming expenses related to the digital application and marketing costs. The agency has spent to date approximately \$427,000 on marketing

expenses and \$78,000 on technology expenses. We expect to spend an additional \$525,000 on combined marketing and technology expenses for the 2025 application period.

2025-2027 Biennium Requested Decision Packages

Priority 1 – Digital Transformation – GenTax Support

- \$4.4M for maintenance support for GenTax is included in the base budget for the 2023-2025 biennium, for Level III support, less the 3% reduction. Base funding does not include planned service increases that are part of the maintenance contract with the software provider.
 - **The total request for funding for the 2025-2027 biennium is \$1,200,000**
 - \$750,000 to reinstate 3% overall budget reduction
 - \$450,000 to maintain support at Level III for the 2025-2027 biennium. The total cost of GenTax for 2025-2027 is \$4,850,000.
 - GenTax was and continues to be used to collect and track Primary Residence Credit applications and subsequent payments to counties.

Priority 2 – NDIT Cost Increases and Additional Services to Support Digital Needs

- Our agency relies heavily on technology in order to effectively serve taxpayers. The agency utilizes services provided by NDIT with those costs making up 17% of the 2023-2025 biennium operating costs. NDIT has increased rates for the upcoming biennium, resulting in a 31% increase to maintain current levels of service.
 - **The request for the 2025-2027 biennium for NDIT provided services is \$455,190**
 - \$53,759 to restore the 3% reduction.
 - \$332,671 in funding to cover cost increases from NDIT services not provided for in the base budget.
 - \$68,760 for two additional servers to support digital growth related to taxpayer services and enhancements.

Priority 3 – Salary Equity

- Funding to support equity increases to address hiring challenges. Requesting funding commensurate to the skillset and specialized knowledge required to effectively administer state tax law and serve citizens. While the equity package from the 2023-2025 biennium was impactful and appreciated, the agency continues to lag behind other agencies in the rate of compensation received by employees.
 - **The request for salary dollars to address equity for the 2025-2027 biennium is \$511,800**

Priority 4 – Capitol Rent Increase

- With the implementation of the rent model in the 2023-2025 biennium, the agency pays rent to the Office of Management and Budget (OMB) for the space we occupy in the capitol building.
 - **The total request to reinstate the 3% reduction and the additional per square foot rent increase paid to OMB for the 2025-2027 biennium is \$37,330**
 - \$20,910 to restore the 3% reduction for capitol tower rent paid to OMB.
 - \$16,420 to cover the 2.6% rent rate increases for capitol tower rent paid to OMB for 2025-2027 biennium that was not included in the base budget.
 - The total rent requirement by OMB for the 2025-2027 biennium is \$651,984.

Grant Programs Budget – Tax Credit Programs 2023-25 Biennium Base Level Budget and 2025-27 Biennium

Homestead Tax Credit

This program provides property tax relief for qualifying individuals who are 65 years of age or older and have an income of \$70,000 or less. The credit is up to 100 percent of the taxes levied on the first \$200,000 of true and full value, for applicants with annual income at or below \$40,000 or less. A reduced level of credit of 50% is available to applicants with an annual income up to \$70,000.

The Homestead Property Tax Credit program appropriations consist of reimbursement payments to counties for taxes & special assessment installments and direct payments for the Renter's Refund program for qualified taxpayers. Responsibilities for program administration include certifying homestead tax credits for reimbursement to the State Treasurer for reimbursement to each county and certifying and paying each qualifying Renter's Refund application.

The original appropriation for the 2023-2025 biennium was \$18,900,000, increased by HB 1158 to \$72,400,000. Expenditures during the first year of the biennium totaled slightly more than \$20.2 million. Although fiscal year 2025 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.

Barring any legislative changes to the Homestead Tax Credit program, the budget request for the 2025-2027 biennium is \$48,000,000. The appropriation does not include any salary or operating costs incurred by the agency to support the program.

Disabled Veteran Tax Credit

This 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 \$180,000 of true and full value. The percentage of credit allowed is equal to the percentage of the disabled veteran's disability compensation rating.

The Disabled Veteran Property Tax Credit program appropriations consist of reimbursement payments to counties for tax credits distributed to qualifying individuals. Responsibilities for program administration include certifying disabled veteran tax credits to the State Treasurer for reimbursement to counties.

The appropriation for the 2023-2025 biennium for the program was \$18,745,000. Expenditures during the first year of the biennium totaled just over \$9.3 million. Although fiscal year 2025 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.

Barring any legislative changes to the Disabled Veteran Tax Credit program, the budget request for the 2025-27 biennium is \$22,000,000. The appropriation does not include any salary or operating costs incurred by the agency to support the program.

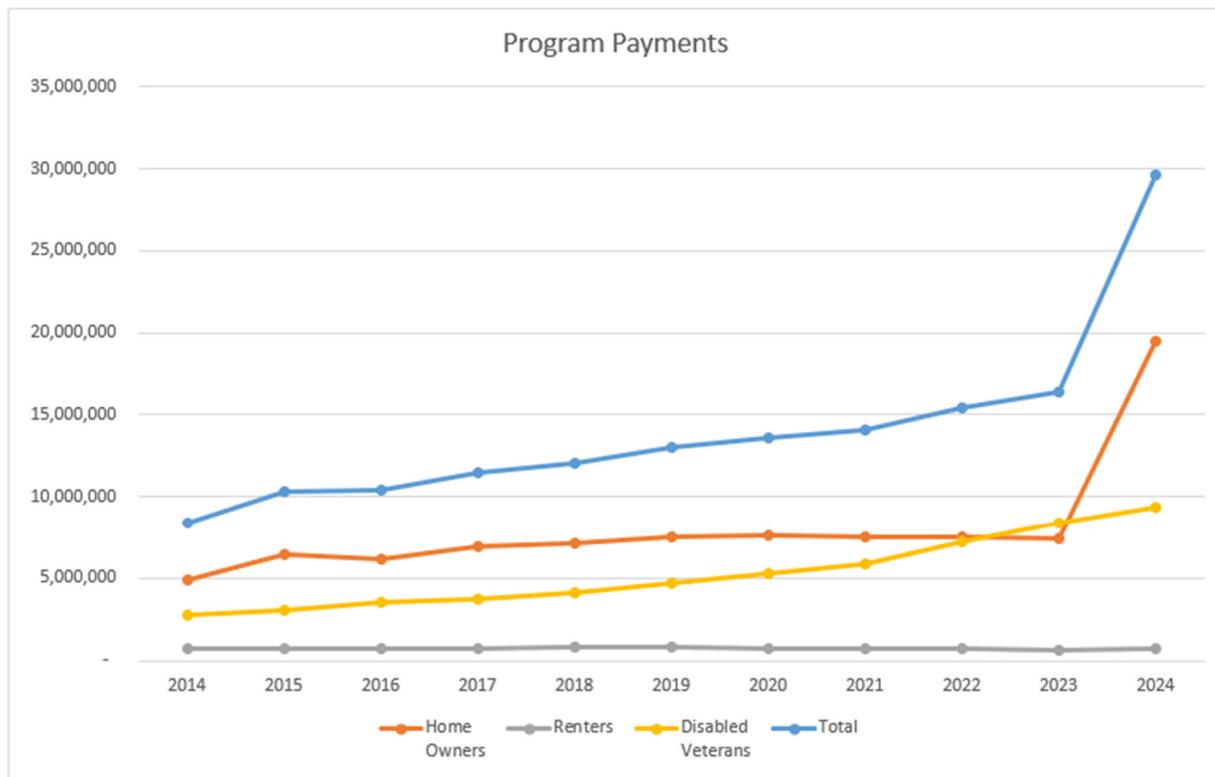
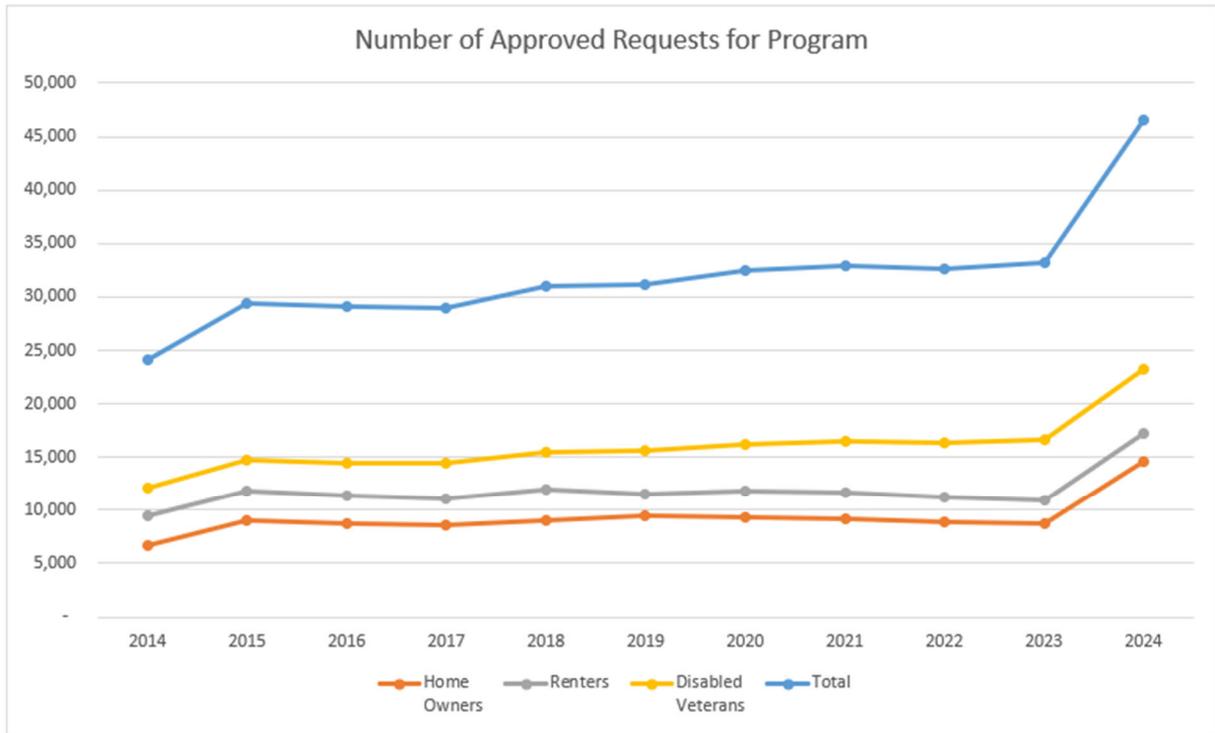
Primary Residence Property Tax Credit

The Primary Residence Property Tax Credit program appropriations consist of reimbursement payments to counties for property tax credits received by qualified homeowners. Administrative responsibilities include collecting homeowner applications, verifying applications to determine eligibility, providing a list of qualified applicants to counties, and certifying primary residence property tax credit disbursement amounts to the State Treasurer.

The appropriation for the 2023-2025 biennium for the program was \$103,225,000 for county reimbursements and \$1,500,000 in one-time funding for expenses related to software programming and marketing.

Barring any legislative changes to the Primary Residence Tax Credit program, the budget request for the 2025-2027 biennium is \$77,500,000. The appropriation does not include any salary or operating costs incurred by the agency to administer the program.

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



Itemized Listing of Agency Requested Changes to Executive Budget

Priority	Description	Agency Request	Burgum Executive Recommendation	Armstrong Executive Recommendation	Explanation
1	GenTax Maintenance & Support	1,200,000	1,200,000	1,200,000	\$750,000 to reinstate 3% reduction \$450,000 to continue Level III Support
2	NDIT Cost Increase & Additional Services	455,190	455,190	455,190	\$53,759 to restore 3% reduction \$332,671 NDIT cost increases not provided in base budget \$68,760 two additional servers due to increased digital filings
3	Salary Equity	511,800	0	0	Equity to bring staff types to other state agency average salaries
4	Capitol Rent Increase	37,330	37,330	37,330	\$20,910 to reinstate 3% reduction \$16,420 to cover 2.6%/ rental rate increase on existing space
5	Comprehensive Tax Portal	0	5,262,753	0	\$5,000,000 operating and programming costs \$262,753 one FTE salary and benefits
6	Property Tax Relief	0	0	405,896,950	Property Tax Relief
7	Homestead Tax Credit	0	0	24,400,000	Expanding Homestead Tax Credit
	Total	2,204,320	6,955,273	431,989,470	