TAX REFORM AND RELIEF ADVISORY COMMITTEE

Section 27 of House Bill 1176 (2025) directed the Legislative Management to appoint a Tax Reform and Relief Advisory Committee to study property tax reform and relief, including study topics related to the primary residence credit, taxing district levy limitation, tax-exempt property, and the content of the property tax statement. During the interim, the Chairman of the Legislative Management also directed the committee to consider issues related to political subdivision compliance with levy limitations as part of the committee's study of property tax reform and relief.

In addition to its property tax study responsibilities, the Legislative Management directed the committee to:

- Study economic development tax incentives pursuant to North Dakota Century Code Section 54-35-26.
- Study the oil extraction tax exemption for production from a stripper well property or stripper well pursuant to Section 2 of House Bill 1483 (2025).

The Legislative Management assigned the committee the responsibility to receive the following five reports:

- A report from the Tax Commissioner providing an analysis of the impact of the taxing district levy limitation from information gathered from local taxing districts, pursuant to Section 27 of House Bill 1176 (2025).
- Annual reports from the Tax Commissioner on statewide property tax increases, pursuant to Section 57-20-04.
- Annual reports from the Department of Commerce Division of Community Services on renaissance zone progress, pursuant to Section 40-63-03(2).
- Annual reports from the Department of Commerce compiling reports from cities that have renaissance zone property included in a tax increment financing (TIF) district, pursuant to Section 40-63-03(10).
- Annual reports from the Tax Commissioner summarizing information provided by taxpayers that received a sales tax exemption for raw materials, single-use product contact systems, and reagents used for biologic manufacturing, pursuant to Section 57-39.2-04.19.

Committee members were Senators Brad Bekkedahl (Chairman), Dale Patten, Michelle Powers, Dean Rummel, and Mark F. Weber and Representatives Jason Dockter, Ty Dressler, Jim Grueneich, Craig Headland, and Don Vigesaa.

PROPERTY TAX REFORM AND RELIEF STUDY

Section 27 of House Bill 1176 (2025) directed a study of property tax reform and relief. The study required consideration of the following:

- Historical property tax relief provided by the Legislative Assembly.
- The estimated and actual fiscal impact of the property tax relief provided by the 69th Legislative Assembly.
- Information from the Tax Commissioner and local taxing district representatives regarding the progress of implementing the primary residence credit and primary residence certification process.
- Information and analysis from the Tax Commissioner regarding the impact of the taxing district levy limitation.
- Information and analysis from the Tax Commissioner, State Supervisor of Assessments, and local taxing district representatives related to tax-exempt property.
- The feasibility and desirability of revising the content of the real estate tax statement to improve transparency in property taxation.

Background

Property Tax Overview

Property tax provides a vital source of revenue for local governments. In North Dakota, over $1.4 billion in property tax was levied in 2023 for payment in 2024. Property tax is levied on real property, personal property, or both, depending on the state. The tax on personal property was abolished in North Dakota in 1970.

Property assessment, including classification and valuation, is the first step in the property tax cycle. Chapter 57-02 outlines the practices and procedures for property assessment and provides all property in this state is subject to taxation unless expressly exempted. North Dakota law provides for numerous property tax exemptions, including exemptions for certain farm structures, property owned by a governmental unit, property owned and used exclusively for religious or charitable purposes, property belonging to an educational institution and not used for profit, property owned by a qualifying new or expanding business, and several other exemptions. Property is classified as either residential, commercial, agricultural, or centrally assessed. Assessors use various valuation methods based on property classification and apply the appropriate calculations to the property's true and full value to arrive at a property's taxable value.

A property owner dissatisfied with the valuation of property has the right to contest the assessment to the local, county, and state boards of equalization or through the tax abatement process. Equalization is the process provided by law to adjust property assessments to be consistent with market value or agricultural value. A property owner may present evidence to the local board of equalization to argue for a reduction in the valuation of the person's property. In place of the equalization process, a property owner may elect to use a more formal abatement process in contesting a property tax assessment. Several layers of review are involved in the abatement process, which may culminate in an appeal of the decision of the board of county commissioners to the district court and then to the Supreme Court.

Once valuations are finalized following the equalization process, each taxing district prepares a budget based on anticipated expenditures for the upcoming year. The amount budgeted by a taxing district may not result in a tax levy exceeding the levy limitations established by statute, including the limitation on growth of a taxing district's levy in dollars under Section 57-15-01.2 and the mill levy limitations under various provisions in Chapter 57-15.

Pursuant to Section 57-15-01.2, the taxing district levy limitation prohibits a taxing district from increasing property taxes levied in dollars by more than 3 percent each year, plus any unused excess percentage increase from the 5 preceding taxable years, without requiring voter approval. The limitation is applied to the greater of the highest amount of property tax levied in dollars by a taxing district in the 3 preceding taxable years, known as the base year levy, or the amount of property tax levied in dollars by the taxing district in the preceding taxable year with various adjustments, known as the adjusted year levy. The limitation does not apply to a specified set of levies expressly enumerated in statute and restricts cities and counties from superseding or modifying the application of the limitation under home rule authority. The limitation supersedes and limits any unused or excess levy authority that may be available to a taxing district under any other provision of law and does not provide a taxing district additional levy authority.

The county treasurer has until December 26 to mail a property tax statement to the owner of each parcel of real property. Property tax statements must include information prescribed in statute, including the property's true and full value; the total mill levy applied to the property; the amount of tax levied in dollars against the parcel by the county, school district, city, and township for the current year and the 2 immediately preceding taxable years; and the dollar amount of property tax savings realized by the property owner through legislative tax relief. Property taxes are due January 1 following the year of assessment and are payable without penalty until March 1 of the year in which due. The committee also reviewed information regarding payments in lieu of property tax.

Property Tax Statistics

The committee reviewed information published by the Tax Department which indicated $1,404,806,697 in property tax was levied in 2023 for payment in 2024. This amount represents a 7.2 percent increase over the total amount levied for payment in 2023. Additional information published by the Tax Department indicated the majority of the property tax levied in 2023 was levied by school districts, followed by the amount of property tax levied by cities, counties, smaller miscellaneous taxing districts, and townships.

Recent Property Tax Reform and Relief Legislation

The committee reviewed recent property tax reform and relief legislation, including legislation approved by the 68th and 69th Legislative Assemblies.

In 2023, the Legislative Assembly provided property tax reform or relief through the passage of House Bill 1158 and 1245 and Senate Bill 2006. House Bill 1158 created a state-paid primary residence credit of $500 against the property tax due on each primary residence for tax years 2024 and 2025, not to exceed the property tax due on the primary residence. The bill also expanded the homestead tax credit, which is available to North Dakota residents who meet certain income limits and are at least age 65. The bill adjusted the income limits and maximum taxable valuation reduction amounts for qualifying individuals and removed the requirement that an individual's assets may not exceed $500,000 to qualify for the credit.

House Bill 1245 required taxing districts to express property tax levies in dollars rather than mills when communicating with the public and comparing the amount levied in the current taxable year to the amount levied in the previous taxable year. Senate Bill 2006 required assessors to include on the assessment increase notice to property owners a statement to inform the taxpayer that an assessment increase may result in a property tax increase on the parcel and allowed the assessment increase notice to contain an estimate of property tax increase attributable to the assessment increase.

In 2025, the Legislative Assembly provided property tax reform or relief through the passage of several bills, including Senate Bill 2201 and House Bill 1176. Senate Bill 2201 extended the $500 primary residence tax credit enacted during the 2023 legislative session to primary residences owned through a beneficial interest in a qualifying trust and occupied as a primary place of residence by a trustor or beneficiary of the qualifying trust. The bill applied retroactively to tax years 2024 and 2025 and a provision in the bill was later amended by House Bill 1176 to provide additional property tax relief through the Primary Residence Credit Program.

House Bill 1176 increased the primary residence credit to $1,600 per year, created a new property classification for primary residential property, and appropriated $408.9 million from the Legacy Property Tax Relief Fund to provide funding for the state-paid primary residence credit in the 2025-27 biennium. The bill also established the taxing district levy limitation under Section 57-15-01.2.

Other property tax relief provided in House Bill 1176 included increasing the maximum disabled veterans credit from $8,100 to $9,000 in taxable value and expanding eligibility to include properties co-owned with a parent or child of the disabled veteran, increasing the maximum annual homestead renter's refund from $400 to $600, and creating an Integrated Formula Gap Funding Program to address a potential shortfall in the state school aid funding formula if a school district is required to reduce its levy for the school districts local contribution to the cost of education below the required 60 mills to comply with the taxing district levy limitation.

Property tax reform efforts in House Bill 1176 included adding a requirement to provide an annual notice to all property owners of the true and full value of their property, replacing the estimated property tax notice with a notice of taxing districts' public budget hearings, and modifying the content of the property tax statement to separately identify certain mills levied by a school district for bonded debt repayments and the portion of the primary residence credit which was derived from funding distributed from the Legacy Fund.

Testimony and Committee Considerations

Property Tax Increase Report and Property Tax Data

The committee was assigned the responsibility to receive an annual report from the Tax Department on annual property tax increases pursuant to Section 57-20-04. The report is due by April 1 of each year and must include the annual increase in property taxes levied by each taxing district in the state after adjusting for property that was not taxable in the preceding year and property that is no longer taxable which was taxable in the preceding year. The report does not reflect levy changes due to exemptions or assessment adjustments on existing property. The committee received detailed information regarding the year-to-year change in dollars levied by the top 50 largest counties, cities, and school districts in the state, sorted by taxable value. The 2025 report indicated Nelson County, the City of Richardton, Dickinson School District, and Parshall City Park District had the highest percentage of growth from 2023 to 2024 within each category, at 93.64, 160.85, 35.1, and 37.99 percent, respectively. The 2026 report indicated Renville County, the City of Beulah, Oakes School District, and New Town City Park District had the highest percentages of growth from 2024 to 2025 in each category, at 15.71, 77.43, 22.23, and 53.33 percent, respectively.

A representative of the Tax Department provided additional property tax data, including data related to property values, property tax collections by property classification, and the homestead credit and disabled veterans credit. According to the testimony, the average annual increase in taxable value over the past 5 years was 0.65 percent for agricultural property, 6.35 percent for residential property, 5.07 percent for commercial property, and 2.68 percent for centrally assessed property. For property taxes levied in 2025, 17.96 percent of taxes were levied on agricultural property, 43.88 percent on residential property, 31.13 percent on commercial property, and 7.03 percent on centrally assessed property. The average statewide percentage increase in property taxes levied decreased from 5 percent in 2024 to 3 percent in 2025.

The committee received information regarding the homestead credit and disabled veterans credits, including increases in both the amount of credits provided and the number of recipients from fiscal year 2023 through fiscal year 2025. The testimony asserted some recipients of Social Security benefits may lose eligibility for the homestead tax credit because the program's income thresholds are not indexed for inflation. The cost of indexing the income brackets is estimated to cost approximately $2 million per biennium.

Primary Residence Credit

The committee received updates throughout the interim regarding the administration and implementation of the primary residence credit from representatives of the Tax Department, the North Dakota Association of Counties, and other interested parties.

Representatives of the Tax Department provided information regarding state administration of the credit, including the application process, implementation of recent legislative changes, reimbursement payments to counties, and available program data. The committee was informed the department is responsible for receiving and reviewing applications, transmitting certification information to counties, and issuing reimbursement payments to counties.

The following table provides application data for each calendar year since the creation of the primary residence credit:

Calendar Year	Total Applications Received	Total Applications Approved
2024	138,090	134,891
2025	144,888	144,606
2025 (Special mobile home application)	8,965	8,610
2026	164,762	164,052

The committee was informed approximately $207.5 million in primary residence credit funding was distributed statewide, including $205.4 million for real estate and mobile home property in 2025 and $2.1 million for the special mobile home application in 2026. Reimbursement payments for tax year 2026 are estimated to total approximately $232 million. The committee was provided with the primary residence credit funding and average credit amount for each county. Funding distributions varied significantly among counties, ranging from $20,983 in Slope County to $53,376,604 in Cass County. Average credit certification amounts varied by county, ranging from $454 in Slope County to $1,562 in Cass County, with a statewide average credit of approximately $1,460. The committee was informed approximately 50,000 primary residence households, or nearly 3 in 10 households, in the state will not have property tax liability after the application of one or more of the primary residence, homestead, or disabled veterans credit.

The committee received information regarding the application review and verification procedures applied to ensure eligibility and prevent fraud. A representative of the Tax Department reported the department uses multiple compliance safeguards, including cross-referencing user-provided information with internal data sources and applying multiple layers of technological and manual review processes. Approximately 97 percent of applications are immediately preapproved, and the remaining 3 percent require individual review to resolve discrepancies. Counties review certification lists before final approval, and the department conducts audits of county reimbursement requests using random sampling. According to the testimony, no significant compliance concerns have been identified.

A representative of the North Dakota Association of Counties testified regarding county administration of the credit. The representative suggested consideration of administrative changes that would allow the Tax Department, rather than county directors of tax equalization, to notify applicants of approval or denial of the primary residence certification applications.

Representatives of the North Dakota Association of Realtors discussed industry concerns related to the credit and noted concerns regarding credit transferability largely have been resolved following statutory changes limiting transfer authority beginning in tax year 2026. The association indicated it is working with the Tax Department to develop guidance and compile answers to frequently asked questions to help real estate professionals provide accurate information to buyers and sellers. The testimony contended the credit may affect the amount of financing for which a prospective homebuyer may qualify.

The committee received information from the Legislative Council staff regarding Legacy Fund projections and considerations for property tax relief, including the history of the fund, historical balances and performance, uses of fund distributions, and future projections. The committee was informed the projected allocation from the Legacy Earnings Fund to the Legacy Property Tax Relief Fund for the 2027-29 biennium is approximately $554 million. The committee also reviewed projections under a scenario in which the Legacy Fund distribution is increased from 8 to 9 percent of the 5-year average value of the Legacy Fund balance.

Committee members discussed property tax relief and the primary residence credit, including whether and to what extent property tax relief efforts should be extended to property classifications other than primary residential property. Committee members considered the potential for broader tax relief to benefit a greater number of taxpayers and the fiscal impacts associated with expanding eligibility.

The committee also received information regarding two individual legislator proposals related to the primary residence credit and other property tax reform and relief. The first proposal would have changed the funding source for the homestead credit and disabled veterans credit from the General Fund to the Legacy Property Tax Relief Fund, provided a continuing appropriation for the Legacy Property Tax Relief Fund, increased the Legacy Fund distribution from 8 to 9 percent of the 5-year average value of the Legacy Fund balance, required the Budget Section to determine the maximum credit amount based on specified criteria, and excluded certain school district bond levies from the credit calculation. The second proposal would have required the Tax Commissioner to certify primary residence credit reimbursement payments within 30 days of receiving a certification from a county auditor. The proposals were presented for informational purposes only and were not offered for consideration as committee bill drafts.

Taxing District Levy Limitation Report and Testimony

The committee was assigned the responsibility to receive a summary report from the Tax Commissioner of information gathered from local taxing districts regarding the impact of the levy limitation and suggestions for changes to the levy limitation pursuant to Section 27 of House Bill 1176 (2025). Representatives of the Tax Department presented the department's report, which was based on information collected from 26 counties. The committee was informed counties have used various strategies to comply with the limitation, including implementing conservative budgeting practices, limiting salary and cost-of-living increases, delaying capital improvement and other asset purchases, and using cash reserves to meet budget requirements. Testimony indicated some taxing districts anticipate greater challenges complying with the limitation in future years as reserve balances decline.

A representative of the North Dakota Association of Counties presented survey results from 51 counties which indicated counties have responded to the levy limitation by carrying forward unused levy authority, budgeting reserve funds, and adjusting spending priorities. Approximately 67 percent of responding counties anticipated carrying forward all or a portion of the excess percentage increase, 33 percent used the entire 3 percent increase, and 34 percent included reserve funds for budgeted expenses in 2026. Some counties reported the limitation may affect eligibility for certain grant programs. Suggested modifications included increasing the allowable percentage increase, providing additional state funding, and exempting certain expenditures from the levy limitation. Testimony also indicated, with the exception of Traill County, counties generally have not expressed an interest in seeking voter approval to exceed the limitation.

A representative of the North Dakota League of Cities presented survey results from 70 cities which indicated the effect of the limitation varies based on city size, noting a 3 percent increase in property taxes levied ranged from $145 in the city of Haynes to $1,466,398 in the city of Fargo. Cities reported carrying forward unused levy authority, using reserve funds for budgeted expenses, and deferring equipment purchases and infrastructure projects to comply with the limitation. Approximately 40 percent of responding cities anticipated carrying forward all or a portion of the excess percentage increase, 60 percent used the entire 3 percent increase, 34 percent included reserve funds for budgeted expenses in 2026, and 33 percent deferred equipment purchases or infrastructure projects. Suggested modifications included adjusting the limitation based on an index or city populations and exempting certain expenditures from the levy limitation. Testimony also noted although cities could seek voter approval to exceed the levy limitation, it was unclear whether any cities intend to do so.

A representative of the North Dakota School Boards Association provided information regarding the effect of the levy limitation on school districts. Testimony indicated the limitation promotes taxpayer transparency and predictability but may create challenges when expenditure growth exceeds allowable levy increases. The committee was informed some school districts applied for integrated formula gap funding from the Department of Public Instruction because compliance with the levy limitation required reducing local contribution levies below 60 mills. Suggested modifications included exempting building fund levies and providing exceptions for extraordinary circumstances. Testimony also noted certain school district levies, including building fund, safety plan, and excess General Fund levies, are voter approved and may be limited to specific purposes, and suggested consideration of whether those levies should be excluded from the limitation.

A representative of the North Dakota Township Officers Association provided testimony regarding the effect of the levy limitation on townships and township budgeting. Testimony focused on the interaction between township budgeting timelines and certain state funding eligibility requirements. The committee was informed organized townships must levy at least 18 mills to be eligible for state funding for township road and bridge projects from the Flexible Transportation Fund and the County and Township Infrastructure Fund. Of 1,431 organized townships, 385 levy less than 18 mills, 505 levy 18 mills, and 541 levy more than 18 mills. The testimony suggested the loss of funding eligibility was attributable to levy decisions rather than the timing of township annual meetings.

A representative of the Department of Public Instruction provided testimony regarding the Integrated Formula Gap Funding Program, which was created in 2025 to address certain reductions in state school aid resulting from the levy limitation. For the 2025-26 school year, 33 school districts applied for gap funding and 24 were approved, for a total of $1.8 million in funding. Funding awards ranged from just over $500,000 for the Bismarck School District to $170 for the Wing School District. Program costs for next year are estimated at $3.6 million and projections indicate an $8 million increase per biennium to fund the program.

The committee received testimony from an interested person which indicated excessive reliance on reserve funds may negatively affect a taxing district's credit rating and increase future borrowing costs.

Committee members discussed the relationship between the taxing district levy limitation and existing mill levy limitations, including whether the enactment of the taxing district levy limitation has reduced the need for certain mill levy limitations. Committee members noted any modifications to levy limitation provisions should be approached cautiously and with consideration of the potential impact on taxpayers and political subdivisions.

Property Tax Exemptions

A representative of the Tax Department provided information regarding the estimated value of property exempt from taxation. Testimony indicated many counties do not value all exempt property; therefore, the department used county-reported data and various estimation methodologies to determine approximate values. Based on responses from 37 counties, the department estimated approximately $28.5 billion is exempt from taxation, including $11.6 billion of school property; $7.4 billion of church, charitable organization, government, and daycare property; $4.7 billion of farm structures; $2.1 billion of hospital property; $1.1 billion of new construction; and $1.6 billion of other exempt property. The true and full value for all locally and centrally assessed property in the state in 2024 was $127,980,363,924, which does not include the estimated value of tax-exempt property reported for the 37 counties.

Political Subdivision Compliance with State Law

At the direction of the Chairman of the Legislative Management, the committee reviewed political subdivision compliance matters as part of its property tax reform and relief study. The review stemmed from recommendations discussed by the interim Legislative Audit and Fiscal Review Committee following findings identified in a Stark County audit report. The Legislative Council provided background materials relating to the directive and a memorandum addressing statutory enforcement mechanisms related to property tax levy limitations, legislative oversight responsibilities, the roles of the State Auditor and Attorney General in oversight and enforcement matters, and potential legislative options that could be considered if existing enforcement mechanisms are determined to be insufficient.

The State Auditor provided background information regarding the political subdivision audit process and compliance with levy limitations, including cash reserve limitations. The committee was informed recent audit reports reflected approximately $1.42 billion in county cash and investments, $1.93 billion in city cash and investments, and $1.02 billion in school district cash and investments. The committee also reviewed a 2023 Stark County audit finding involving a General Fund levy that exceeded statutory limitations because of excess cash reserves. The testimony indicated county auditors are responsible for verifying and approving levy calculations and some political subdivisions have not submitted required audit reports because audits have not been completed, primarily due to a shortage of governmental auditors.

A representative of the North Dakota Association of Counties testified regarding county compliance efforts and the association's training and technical assistance efforts. According to the testimony, the association assists county officials by providing educational resources and budget and levy calculation tools and provides regular training to county officials, including 35 training sessions since May 2025, to promote continuing education. The association's training includes information regarding ending fund balance thresholds and recommended fund balance management practices.

A representative of the North Dakota League of Cities provided testimony regarding city compliance with property tax levy limitations. Testimony indicated city auditors are required to complete statutory training, which is provided by the League of Cities, and noted some smaller cities face challenges recruiting and retaining employees with financial expertise. The testimony indicated the League of Cities was not aware of any cities with audit findings related to noncompliance with state law, including property tax levy limitations.

A representative of the Stark County Commission provided comments regarding the county's excess General Fund reserves and compliance with levy limitations. The testimony indicated the county has had excess cash reserves in its General Fund since 2019, and the amount levied in property taxes for the county's General Fund was reduced in subsequent years but remained in excess of the levy limitation under state law. A portion of the excess cash reserves was intended to be used for a road project, but the project was not completed. The testimony indicated county officials preferred to retain the cash reserves in the General Fund to preserve flexibility rather than transfer the funds into a special fund for a particular project which would have limited the use of the funds but brought the county into compliance with state law.

The committee received information regarding two individual legislator proposals related to political subdivision compliance with state law. The first proposal would have required the State Treasurer to withhold a portion of State Aid Distribution Fund allocations to a city or county that failed to submit an audit or annual report in a timely manner as required under law. The second proposal would have authorized a city or county that declared an emergency to use money from a special fund designated for an infrastructure project to meet the emergency, provided the funds were not otherwise restricted for the payment of bonds or other obligations or by state or federal law. The proposals were presented for informational purposes only and were not offered for consideration as committee bill drafts.

Committee members expressed a variety of opinions regarding political subdivision compliance with levy limitations, including cash reserve limits. Some members suggested increasing the amount of cash reserves that may be carried forward from year to year or providing greater flexibility to transfer revenue between funds, which may allow taxing districts to better manage budgets and respond to unforeseen or emergency circumstances. Other members noted the importance of enabling taxing districts to direct resources where the resources are most needed, particularly in light of the recently implemented taxing district levy limitation. Conversely, some members emphasized the need to prevent taxing districts from accumulating excessive reserves while continuing to impose taxes unnecessarily. Committee members also discussed enforcement mechanisms, with some suggesting that withholding funding may be a more appropriate penalty for noncompliance than imposing criminal penalties on county auditors.

Taxing District Approaches to Property Tax Transparency

The committee received testimony from representatives of counties, cities, and school districts regarding efforts to improve property tax transparency.

Representatives of the North Dakota Association of Counties and Williams County indicated although budget and financial information always is available at a county auditor's office, counties communicate budget and property tax information through various methods, including county websites, social media, public meetings, online access to live and recorded meetings, mailed materials, and other public outreach efforts. Despite these efforts, public engagement in the county budget meetings generally remains low.

Representatives of the North Dakota League of Cities and the cities of Mandan, Carrington, and Ray reported cities use similar communication methods, including websites, public meetings, local media, budget presentations, and taxpayer outreach. The testimony contended visual budget information and outreach regarding property tax relief programs can improve public awareness and understanding of local taxation. The testimony also highlighted challenges faced by smaller communities, including limited staff, funding, and technology resources.

Representatives of the North Dakota School Boards Association and school districts in Bismarck, Jamestown, and Wilton discussed communication strategies used to increase transparency regarding school finances and property tax levies. These strategies include public meetings, community forums, websites, social media, direct mailing, financial reports, strategic plans, online budget information, and visual communication tools. The committee also received information regarding taxpayer-focused online resources, such as property tax impact calculators, which may improve public understanding of school finance and property tax decisions.

Property Tax Statement

The committee received information regarding the content, administration, and potential revision of property tax statements. A representative of the Tax Department provided an overview of property tax statements and notices prescribed by the department, including changes resulting from recent legislation. Representatives of the North Dakota Association of Counties encouraged a comprehensive review of the property tax statement and consideration of costs associated with revisions to the statement.

The Tax Reform and Relief Advisory Committee - Property Tax Statement Subcommittee was created and assigned the responsibility to gather and consider information pertinent to the committee's study of the feasibility and desirability of revising the content of the real estate tax statement to improve transparency in property taxation. Members of the subcommittee were Representatives Craig Headland (Chairman), Jason Dockter, and Ty Dressler and Senators Dale Patten and Dean Rummel.

The subcommittee received information from representatives of the Tax Department regarding the department's role in prescribing and approving the form of the real estate tax statement. Testimony indicated much of the statement's content contains information required by statute and revisions generally are prompted by legislative changes and developed through collaboration between county representatives and the department. Once approved by the Tax Commissioner, counties work with software vendors to implement changes.

County representatives, including representatives of McKenzie County and Richland County, provided information regarding county budgeting, levy calculation, and property tax statement preparation. The committee was informed county auditors play a central role in compiling budget information, calculating levy limitations, collecting and reporting property tax data, and coordinating the preparation and distribution of property tax statements. Presenters noted counties use a variety of tools and processes to improve efficiency. Testimony also indicated public engagement in county budget hearings generally remains limited.

The committee received information regarding the cost of preparing and mailing property tax statements from a representative of the North Dakota Association of Counties. Based on responses from eight counties, the average cost per statement was approximately 74 cents, with an estimated statewide annual cost of about $592,000, and many counties used third-party vendors for printing and mailing services. Testimony indicated the legislative tax relief line item is based on a statutory calculation intended to reflect legislative property tax relief efforts since 2013 but may not correspond to the actual relief received by individual taxpayers.

Representatives of four property tax software vendors provided information regarding software systems used to calculate property taxes and prepare tax statements. Testimony addressed software functionality, data extraction capabilities, tax statement examples from other states, and the feasibility and costs associated with adding enhanced visual or informational features to tax statements. The committee was informed legislative changes often require significant programming updates and even minor statement modifications may result in additional costs. Testimony highlighted ongoing efforts to address implementation challenges related to the order of application of the primary residence credit and early payment discount and noted some systems provide taxpayers online access to property tax information and related tax levy data.

The subcommittee also conducted a roundtable discussion with representatives of counties, the Tax Department, property tax software vendors, and subcommittee members regarding potential revisions to the tax statement. Discussion focused on balancing increased transparency and accessibility with implementation costs and anticipated taxpayer use of the information. Discussion topics included supplemental informational materials, expanded online access to property tax data, the feasibility of a centralized property tax information resource, taxpayer preferences regarding mailed and electronic information, and software implementation considerations.

Subcommittee members discussed options to improve property tax transparency, including removal of the legislative tax relief line item and methods of providing taxpayers with additional levy information. Discussion focused on improving taxpayer understanding of property taxation while identifying cost-effective approaches and potential methods for the state to assist counties with implementation expenses if appropriate.

After receiving the subcommittee's report and recommendations, the committee considered a bill draft proposing the removal of the legislative tax relief line item from the required contents of the property tax statement and the creation of a state-funded grant program to assist counties with the preparation and distribution of supplemental property tax information. The grant program would be administered through an association representing counties to reimburse counties for costs associated with preparing and distributing supplemental property tax and budget information with property tax statements, subject to specified program requirements and administrative limitations.

Committee members noted removal of the legislative tax relief line from property tax statements would increase transparency and the grant program would ease the financial burden on counties of preparing and distributing supplemental information to better inform citizens of the budget and property taxation process.

Recommendation

The committee recommends a bill draft [27.0244.01000] to remove the legislative tax relief line item from the required content of the property tax statement and establish a supplemental property tax information grant program funded with a $200,000 appropriation.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Background

Section 54-35-26, enacted by Senate Bill 2057 (2015), provides for the review of a specified list of economic development tax incentives and requires each incentive to be reviewed at least once every 6-year period. The Legislative Management selected the interim Tax Reform and Relief Advisory Committee to review tax incentives for the 2025-26 interim.

State efforts to establish regular tax incentive reviews reflected a broader national trend that emerged following the 2007-09 recession. Beginning in 2012, The Pew Charitable Trusts (Pew) tracked and evaluated state tax incentive review practices and issued reports identifying states that were leading the way, making progress, or trailing behind in evaluating incentives. A May 2019 Pew report identified North Dakota as 1 of 16 states leading the nation in tax incentive evaluation. In July 2025, Pew concluded its work in this area, and the National Conference of State Legislatures assumed responsibility for key components of the initiative.

Section 54-35-26 directs the committee to evaluate whether each specified incentive is serving the purposes for which it was enacted in a cost-effective and equitable manner. The section identifies eight items that may be considered when evaluating incentives:

1. The extent of achievement of the goals of the incentive and whether unintended consequences have developed in its application;
2. Whether the design and application of the incentive can be improved;
3. The extent of complementary or duplicative effects of other incentives or governmental programs;
4. Whether the incentive has a positive influence on business behavior or rewards business behavior that is likely to have occurred without the incentive;
5. The effect of the incentive on the state economy, including the extent of primary sector operation of the recipient and any competitive disadvantage imposed or benefit conferred on other state businesses, any benefit or burden created for local government, and the extent of the incentive's benefit that flows to out-of-state concerns;
6. The employment opportunities generated by the incentive and the extent those represent career opportunities;
7. Whether the incentive is the most effective use of state resources to achieve desired goals; and
8. If the committee's analysis of the incentive is constrained by lack of data, whether statutory or administrative changes should be made to improve collection and availability of data.

Current 6-year Review Cycle and 2025-26 Review of Incentives

The following table provides an overview of the current 6-year economic development tax incentive review cycle, including the incentives selected for review during the 2025-26 interim:

Current 6-Year Review Cycle		
2021-22 Interim	**2023-24 Interim**	**2025-26 Interim**
Research expense credit	Biodiesel fuel production facility construction or retrofit credit, biodiesel fuel blending credit, and biodiesel fuel equipment credit	Renaissance zone credits and exemptions
Agricultural commodity processing facility investment credit	Internship program credit	Development or renewal area incentives
Seed capital investment credit	Workforce recruitment credit	Angel investor tax credit
Soybean or canola crushing facility construction or retrofit credit	Coal severance and conversion tax exemptions	Fertilizer or chemical processing facility sales tax exemption
Manufacturing automation equipment credit	Oil and gas gross production and oil extraction tax exemptions	Qualified data center sales tax exemption
New or expanding business exemptions	Fuel tax refunds for certain users	Biologic manufacturing sales tax exemption
Manufacturing and recycling equipment sales tax exemption	Carbon dioxide capture and injection sales tax exemption	Coal processing facility that utilizes coal as a feedstock sales tax exemption
New jobs credit from income tax withholding		

The committee received background information for each of the selected incentives, including an explanation of the incentive, the perceived intent of the Legislative Assembly in creating or altering each incentive, and the data and testimony required to effectively review each incentive. The Tax Department provided available information regarding the number of claimants and amounts claimed for the incentives, and the committee received testimony from interested parties regarding the incentives selected for study.

Renaissance Zone Credits and Exemptions

Explanation of the Incentive

Chapter 40-63 provides for various renaissance zone tax exemptions and credits. Section 40-63-04 provides income tax exemptions to an individual who purchases or rehabilitates single-family residential property for the individual's primary residence as a zone project. The amount of the exemption is up to $10,000 of personal income tax liability for up to 8 taxable years beginning with the date rehabilitation is completed or the property is occupied. An exemption also is available for a taxpayer that purchases, leases, rehabilitates, or makes leasehold improvements to residential, public utility infrastructure, or commercial property for any business or investment purposes as a zone project. The amount of the exemption is equal to the income derived from the business or investment locations within the zone, up to a maximum amount of $500,000 per taxable year for up to 8 taxable years beginning with the date of purchase, lease, or completion of rehabilitation. For projects that expand an existing building in the zone, the amount of the exemption is equal to the income derived from the portion of the business relating to the expansion. In lieu of the previous exemption, a taxpayer in a city with a population of 2,500 or less may elect to exempt up to $2,000 of individual income tax liability if the cost of a new business purchase, leasehold improvement, or existing business expansion exceeds $75,000.

A property owner not participating in a renaissance zone project is eligible for a credit against income tax liability if the owner is required to make changes in utility services or in a building structure due to changes made to property that is part of a zone project. The amount of the credit is equal to the total amount of the investment necessary to complete the changes. Any credits exceeding a taxpayer's liability may be carried forward for up to 5 taxable years. A renaissance zone credit also is offered in Section 40-63-06 for investments in historic preservation or property renovation within a renaissance zone. The amount of the credit is equal to 25 percent of the amount invested, up to a maximum amount of $250,000. The credit must be claimed in the year the preservation or renovation work is completed. Any credits exceeding a taxpayer's liability may be carried forward for up to 5 taxable years.

Exemptions are available under Section 40-63-07 for renaissance fund organizations. A city with a designated renaissance zone may establish a renaissance fund organization to raise funds to finance zone projects. A taxpayer may receive a credit against income tax liability equal to 50 percent of the amount invested in a renaissance fund organization. The maximum amount of credits awarded to all taxpayers is limited to $10.5 million and any credit amount exceeding a taxpayer's liability may be carried forward for up to 5 taxable years.

Property tax incentives also are available within a renaissance zone. A city may grant a partial or complete property tax exemption for up to 8 taxable years after the purchase or completion of rehabilitation of renaissance zone property. A city may grant an exemption on single-family residential property, exclusive of land, if the property was purchased or rehabilitated by an individual for the individual's primary place of residence as a zone project. A city also may grant an exemption on buildings, structures, fixtures, and improvements purchased or rehabilitated as a zone project for a business or investment purpose. The State Board of Equalization may grant a partial or complete property tax exemption for up to 8 taxable years, following the date of rehabilitation, on public utility infrastructure rehabilitated as a zone project.

If a taxpayer is delinquent in the payment of any state or local tax liability, the taxpayer may not claim a renaissance zone credit or exemption.

Perceived Goals in Creating or Altering the Incentive

In 1999, provisions relating to renaissance zones were enacted to allow a governing body of a city to apply to designate a portion of the city as a renaissance zone. Income and property tax exemptions were created for taxpayers investing in real property within a renaissance zone. A historic preservation and renovation tax credit also was created for investment within a renaissance zone. The perceived goal of the Legislative Assembly in creating renaissance zone credits and exemptions was to provide incentives to encourage the rejuvenation of inner cities.

Various changes were made to renaissance zone provisions in later years, including granting the ability to expand the boundaries of an existing renaissance zone or remove portions of a renaissance zone which were not progressing in 2001, authorizing a renaissance fund organization to provide financing to businesses outside a renaissance zone in 2003, authorizing the Department of Commerce to approve a city's request to extend the duration of a renaissance zone in 2009, modifying provisions related to investments in renaissance zone organizations in 2011, changing the manner in which income related to a business expansion is attributed in 2013, increasing the maximum allowable size of renaissance zones in 2015, and requiring letters of support from the governing bodies of each county and school district impacted by a proposed zone be submitted with a city's development plan in 2017.

Most recently, the provisions were amended in 2023 to allow a city with an expired renaissance zone to apply to renew the expired renaissance zone or apply for the creation of a subsequent renaissance zone and to expand the definition of the term "rehabilitation" for purposes of qualifying for an incentive.

Renaissance Zone and Tax Increment Financing Reports

The committee was assigned the responsibility to receive an annual report from the Department of Commerce Division of Community Services on renaissance zone progress, pursuant to Section 40-63-03(2), and a report compiling reports from cities that have renaissance zone property included in a TIF district, pursuant to Section 40-63-03(10). The following table summarizes information received in the report on renaissance zone progress:

Reported Item	2024	2025	Increase (Decrease)
Projects completed	41	49	8
Income tax exemptions	$437,591	$840,947	$403,356
Property tax exemptions	$2,148,022	$3,719,127	$1,571,105
New businesses created	5	15	10
Businesses expanded	13	11	(2)
New jobs	63	132	69
Projects approved (Since inception)	2,177	2,213	36

Information contained in the second report indicated the cities of Fargo and Grand Forks have properties located in both a renaissance zone and a TIF district. According to the report data, most properties situated within both a TIF district and a renaissance zone benefit from either the TIF Program or the Renaissance Zone Program, but not both. In Fargo, only one project received benefits from both programs in 2024, and two projects received benefits from both programs in 2025.

The report indicated the Renaissance Zone Program is functioning as intended.

Testimony and Committee Considerations

A representative of the Tax Department provided fiscal data regarding the amount and number of claims for the renaissance zone income tax exemption and credit for tax years 2020 through 2024. During that period, the renaissance zone income tax exemption was claimed by 9 corporate income taxpayers and 241 individual income taxpayers, with credits totaling $2,687,424 and $18,668,631, respectively. The renaissance zone income tax credit was claimed by 1 corporate income taxpayer and 361 individual income taxpayers over the last 5 tax years, with credits totaling $308,101 and $4,141,750, respectively.

A representative of the Department of Commerce provided an overview of the Renaissance Zone Program, which was established in 1999. The Renaissance Zone Program is a community redevelopment tool that provides tax incentives for business development, housing investment, and historic preservation in designated areas of participating cities. To date, more than 1,600 projects have been completed through the program and participating communities report the program has attracted private investment, rehabilitated older properties, expanded housing opportunities, and revitalized downtown business districts. The testimony indicated the department uses multiple outreach methods to educate communities about the program, but a barrier to broader program implementation is the limited availability of resources and staff support.

City representatives discussed the use of the Renaissance Zone Program as a tool for economic development and provided examples of community investment associated with the program. According to the testimony, since the creation of the renaissance zone in the city of Bismarck in 2005, approximately $109 million has been invested in redevelopment within the zone. Testimony indicated the program serves as the city's primary tool to help ensure the downtown area remains healthy and attractive to investors, although participant feedback reflects mixed views regarding the extent to which the incentives influence investment decisions. The testimony also contended smaller communities may face unique challenges related to use of the program, particularly because blighted areas tend to be scattered throughout the community rather than concentrated in defined areas.

The committee received testimony in support of retaining the incentives from a representative of the Economic Development Association of North Dakota. The testimony emphasized the role of economic development incentives in attracting and retaining businesses, supporting a competitive business climate, and supporting the state's economy.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the incentives. The committee did not identify any concerns relating to the incentives or express an interest in repealing or expanding the scope of the incentives.

Conclusion

The committee makes no recommendation regarding the renaissance zone credits or exemptions.

Development or Renewal Area Incentives

Explanation of the Incentive

Chapter 40-58 allows a city to establish a TIF district by adopting a resolution finding one or more slum or blighted areas or industrial or commercial properties exist which require development, rehabilitation, or conservation in the public interest. The city must prepare a development or renewal plan and hold a public hearing for consideration of the plan. Approved development or renewal plans must be filed with the Department of Commerce. To implement the plan, the city may borrow money and accept financial assistance from any available source. The city may appropriate funds and make expenditures to carry out the plan. The city may issue bonds to finance the project and may issue refunding bonds to retire bonds previously issued.

Tax increment financing is used as the repayment mechanism for bonds issued for a development plan. Property values within the TIF district are "frozen" for property tax purposes at the time the district is established. Taxing districts with taxable property situated in a TIF district may continue to levy property tax against the frozen value of the properties. As the district is developed and property values increase, the city may impose a TIF district special fund levy against any valuation exceeding the frozen value of properties in the district. The valuation exceeding the frozen value is referred to as the "incremental value" of the property. Revenue from the TIF district special fund levy is placed in a special fund and used to repay bonds or other financing for TIF district projects. As an alternative to sale of bonds for a TIF district, the city may grant a total or partial property tax exemption for the project to provide assistance to a project developer. The property tax exemption only applies to the incremental value of the property and may not extend for more than 15 years.

Perceived Goals in Creating or Altering the Incentive

Chapter 40-58, regarding urban renewal law, was enacted in 1955 with the passage of House Bill 774. The bill contained provisions noting slum and blighted areas exist in cities which contribute to the spread of disease and crime and substantially impair the sound growth of municipalities. The bill further provided these areas contribute little in tax revenue while consuming an excessive portion of revenue for police, fire, and other forms of public protection and services. The statement of necessity contained in the bill provided slum and blighted areas are a matter of state policy and state concern. The bill encouraged cities to provide maximum opportunity for the "rehabilitation or redevelopment of the urban renewal area by private enterprise." The bill also allowed a city to formulate a workable program for using appropriate private and public resources to "eliminate, and prevent the development or spread of, slums and urban blight, to encourage needed urban rehabilitation."

Specific provisions relating to TIF districts were added in 1973 to allow for the computation, certification, and remittance of tax increments resulting from urban renewal for reimbursement of the cost of urban renewal and the interest and redemption premiums on obligations issued to pay urban renewal costs. Testimony provided during the 1973 legislative session indicated urban renewal efforts had been discontinued at the national level and a need existed for local communities to take on renewal projects. Various legislative changes relating to TIF districts were made in later years, including an expansion of the use of TIF districts to develop unused or underutilized industrial commercial property and the exclusion of agricultural property from the definition of a blighted area. Revisions in 2011 included limiting the base year used in computing tax increments to no more than 25 taxable years. Revisions in 2017 required a city to notify impacted counties and school districts if the city was considering providing a property tax incentive on any parcel for more than 5 years. A county or school district receiving notice has the option of disallowing the incentive from impacting its portion of the tax on the property. In 2023, the term "property tax incentive" was clarified for purposes of the notice requirement to include TIF districts used to offset public or private costs for urban renewal.

Testimony and Committee Considerations

A city representative provided testimony regarding the use of TIF districts as a financing tool for economic development in cities and provided examples of projects financed through TIF districts. A TIF district established in the city of Oakes in 2003, and retired in 2025, provided $5.1 million of financing for road, water, and other infrastructure projects and resulted in the creation of 75 to 100 jobs. The testimony also highlighted a TIF district established in the city of Ellendale in 2025 to finance infrastructure to support new affordable housing, which eliminated the need to levy special assessments on the new homes.

The committee received information from a representative of the Department of Commerce regarding properties located within both a TIF district and a renaissance zone as part of the report required under Section 40-63-03(10).

The committee received testimony in support of retaining the incentive from a representative of the Economic Development Association of North Dakota. The testimony emphasized that economic development incentives help attract and retain businesses, support the state's economy, and promote a competitive business climate.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the incentive. The committee did not identify any concerns relating to the incentive or express an interest in repealing or expanding the scope of the incentive.

Conclusion

The committee makes no recommendation regarding the development or renewal area incentives.

Angel Investor Tax Credit

Explanation of the Credit

Section 57-38-01.26 provides for an angel investor tax credit for investments made after June 30, 2017. An angel investor is entitled to a credit against the investor's individual income tax liability for investments made by a certified angel fund in an in-state or an out-of-state qualified business. The credit is equal to 35 percent of the amount invested by the angel fund on behalf of the angel investor in an in-state qualified business and 25 percent of the amount invested by the angel fund on behalf of the angel investor in an out-of-state qualified business during the taxable year.

The credit must be claimed in the taxable year in which the investment is made in the qualified business, and a taxpayer is limited to claiming no more than $45,000 in credits in any single taxable year and $500,000 in credits over any combination of taxable years. Angel investors may not receive more than $5 million in aggregate credits during the life of an angel fund. The credit allowed may not exceed the investor's tax liability and any excess may be carried forward to each of the 5 succeeding taxable years.

Qualified businesses generally include early-stage and mid-stage for profit entities engaged in research or development of new products and processes in their plans for growth and profitability as provided in Section 57-38-01.26. Businesses engaged in specified real estate activities and certain hospitality-related activities are not eligible. To be considered an in-state qualified business, the business must meet the criteria in the section related to maintaining a significant presence in North Dakota through its organization, principal office, or other business operations.

To qualify for the credit, investments must be made through a certified angel fund. An angel fund is defined under Section 57-38-01.26 and must be a North Dakota-based passthrough entity organized as a domestic for-profit entity and headquartered in the state with at least six accredited investors, no more than 25 percent of its capitalized investment assets owned by any one investor, and at least $500,000 in investor commitments. At least 50 percent of an angel fund's investments must be invested in qualified in-state businesses, and investments generally must be held for at least 3 years from the date of investment. The section also includes reporting requirements, ownership limitations, compliance standards, and penalties intended to ensure the credit is administered in accordance with legislative requirements.

Perceived Goals in Creating and Altering the Credit

Provisions related to the angel fund investment tax credit were enacted in 2007. The perceived goal of the Legislative Assembly in creating the credit was to encourage investment in startup businesses by offering a tax credit to angel fund investors. The credit was described as an extension of the seed capital tax credit and was intended to stimulate private investment and grow startup or early-stage companies. Companies targeted by angel fund investments were thought to be smaller companies that carried high risk but also high-growth potential. The angel fund investment tax credit was viewed as a tool to create and maintain quality jobs and diversify a community's economic base. The estimated fiscal effect of the angel fund investment credit could not be determined during the 2007 legislative session.

Legislation enacted between 2009 and 2013 imposed additional requirements on angel funds, including requirements related to organization, investor composition, investment activities, certification, and state securities law compliance; added reporting requirements and disclosure provisions; extended eligibility to passthrough entities; increased the

taxpayer lifetime credit limit from $150,000 to $500,000; and prohibited investments in real estate and real estate holding companies. Restrictions also were placed on investor ownership interests and the aggregate amount of credits available through a single angel fund was capped at a lifetime limit of $5 million.

In 2017, the Legislative Assembly replaced the former angel fund investment tax credit with the current angel investor tax credit applicable for investments made beginning July 1, 2017. The perceived goal of the Legislative Assembly in creating the new angel investor tax credit was to address concerns associated with the prior version of the credit, specifically, issues related to transparency, accountability, and the absence of sufficient restrictions on investments. The revised credit was designed to incentivize investment in small- to medium-sized businesses, particularly startups and businesses seeking venture capital to support expansion. The revisions to the credit sought to provide capital to businesses within the state which typically is not available through conventional financing due to elevated investment risk while maintaining appropriate safeguards to protect the state's investment in offering the credit.

Testimony and Committee Considerations

A representative of the Tax Department provided information regarding the number of claimants and amount of credits claimed from tax year 2020 through 2024. During that period, 76 taxpayers claimed the credit, with credits totaling $1,315,530.

A representative of the Department of Commerce provided information regarding the angel investor tax credit and its role in encouraging early-stage capital investment. The department also provided information regarding complementary state programs, including Innovate North Dakota, the North Dakota Development Fund, the North Dakota Growth Fund, the Angel Match Program, and other financing programs available through the Bank of North Dakota.

The committee received testimony in support of retaining the incentive from a representative of the Economic Development Association of North Dakota. Testimony indicated the association supports maintaining the credit in its current form and supports reporting requirements for economic development tax incentives to promote informed policymaking.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the credit. The committee did not identify any concerns relating to the credit or ways in which the credit could be improved.

Conclusion

The committee makes no recommendation regarding the angel investor tax credit.

Fertilizer or Chemical Processing Facility Sales Tax Exemption

Explanation of the Exemption

Sections 57-39.2-04.15 and 57-40.2-03.3 provide a sales and use tax exemption for materials used to construct a fertilizer or chemical processing facility that produces for retail or wholesale a fertilizer, chemical, or chemical derivative from natural gas, natural gas liquids, or crude oil components. The sales tax exemption applies to sales of personal property used to construct a fertilizer or chemical processing facility or any component integral to the facility. A component integral to the facility may be owned directly or indirectly by the facility or an unrelated third party and must be located at the site of the facility and integral to the facility's processing of fertilizers or chemicals. The tangible personal property must be incorporated in the facility or used in the construction process to the point of having no residual economic value to qualify for the exemption. The owner of a fertilizer or chemical processing plant must receive from the Department of Environmental Quality an air quality permit or notice that the air quality permit is complete and provide the documentation to the Tax Department to qualify for the exemption.

Perceived Goals in Creating and Altering the Exemption

The sales and use tax exemption for materials used to construct a fertilizer or chemical processing facility was enacted by Senate Bill 2035 (2015). The perceived goal of the Legislative Assembly in creating the exemption was to encourage economic diversification by incentivizing new industries. Various items were discussed in support of the exemption, including the state's need to compete with other states to attract and develop new industries, the benefits of converting natural gas to fertilizer to reduce flaring and provide a local fertilizer market for farmers, the opportunity to add value to existing energy resources by converting ethane gas into polyethylene, and the creation of new jobs and an expanded tax base. The incentive also was viewed as a tool to lessen the impact of other barriers to doing business in this state, such as the cold climate, limited workforce, rural infrastructure, and transportation issues. In 2023, the deadline by which the owner of a fertilizer or chemical processing plant must receive an air quality permit or notice that an air quality permit application is complete was eliminated. The perceived goal of this amendment was to extend the incentive to new industry participants, including a large value-added energy industry project.

Testimony and Committee Considerations

A representative of the Tax Department indicated the sales tax exemption has not been claimed by any taxpayers since the exemption was enacted.

The committee received information from a representative of the Department of Commerce regarding the use of sales tax exemptions for economic development. The testimony contended sales tax exemptions encourage in-state capital investment, generally increase in value as the size of a project increases, and may help attract and retain businesses by providing a more competitive tax environment.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the sales tax exemption. The committee did not identify any concerns relating to the exemption or ways in which the exemption could be improved. The committee did not indicate a desire to eliminate the exemption as a result of the exemption's lack of use.

Conclusion

The committee makes no recommendation regarding the fertilizer or chemical processing facility sales tax exemption.

Qualified Data Center Sales Tax Exemption

Explanation of the Exemption

Section 57-39.2-04.17 provides a sales and use tax exemption for enterprise information technology equipment and computer software purchased for use in a qualified data center. For purposes of the exemption, a qualified data center is a facility that serves as a centralized repository for the storage, management, and dissemination of electronic data and information, located on a single parcel or contiguous parcels, comprised of one or more buildings consisting of a minimum aggregate amount of 15,000 square feet, of which no fewer than 50 percent is used for data processing and which is newly constructed or substantially refurbished after December 31, 2020. The data center must be certified by the Tax Commissioner as a qualified data center and have a sophisticated fire suppression and prevention system and enhanced security features. Equipment or software must be incorporated into or physically located within the qualified data center to qualify for the exemption. The exemption includes purchases of upgraded or replacement equipment or software.

Perceived Goals in Creating and Altering the Exemption

A qualified data center sales tax exemption, codified as Section 57-39.2-04.13, was first enacted in 2015 and expired effective January 1, 2021. Based on the legislative history, the perceived goal of the Legislative Assembly in creating the original exemption was to attract data center investment to North Dakota, diversify the state's economy by creating a more attractive tax environment for data centers, increase employment opportunities, and encourage growth of technology-related and data-intensive industries. The exemption was viewed as a tool to enhance the state's ability to attract data centers, particularly when coupled with the state's cold weather and abundant sources of electricity.

Following the expiration of the original exemption, the Legislative Assembly reenacted a substantially similar exemption in 2021. The reenacted exemption modified certain eligibility requirements and added reporting requirements. The legislative history indicates the perceived goals of the reenacted exemption remained largely consistent with those underlying the original exemption, and the modifications were intended to improve the effectiveness of the incentive and expand opportunities for data center development in the state. The Legislative Assembly emphasized the reenacted exemption was intended as a tool to attract data centers to the state.

Testimony and Committee Considerations

A representative of the Tax Department provided fiscal data related to the qualified data center sales tax exemption for tax years 2023 through 2025 based on information received through the reporting requirement in Section 57-39.2-04.17. The committee was informed the reporting requirement applies only to data center owners and operators, although tenants also may qualify for the exemption. As a result, the reported data does not reflect the exemption's full-fiscal impact. The reported information is summarized below:

Reported Item	Tax Year 2023	Tax Year 2024	Tax Year 2025
Estimated tax exempt	$7,836,886	$15,264,914	$65,443,337
Jobs created or retained	61	115	95

The committee received information from a representative of the National Conference of State Legislatures regarding data center tax incentives and related legislation in other states. The testimony indicated data center incentives are available in 38 states, all of which include a sales and use tax exemption. Some state legislatures are considering changes to tax incentives for data centers, including a 3-year suspension of new exemptions in Arizona and the removal of an exemption in Washington for data center refurbishment. Some tax incentives require a certain level of investment or job creation to qualify, and some states limit the tax incentive to a specified number of years. Six states are considering new taxes applicable to data centers to increase state revenues.

A representative of the Department of Commerce provided testimony regarding the exemption and the use of sales tax exemptions as economic development incentives. The testimony indicated the exemption does not duplicate any state programs, but a data center project may qualify for other state or local economic development incentives. The testimony contended sales tax exemptions encourage in-state capital investment, generally increase in value as the size of a project increases, and may help attract and retain businesses by providing a competitive tax environment.

The committee received testimony in support of retaining the exemption from a representative of the Economic Development Association of North Dakota. Testimony indicated data center development has occurred in multiple communities throughout the state, including Williston, Jamestown, Ellendale, Grand Forks, Harwood, and Center, resulting in billions of dollars of investment. The testimony contended data centers contribute to local economies through other taxes, including property taxes, local sales taxes, and franchise fees, and changes to the incentive may limit future investments in North Dakota.

The committee also received testimony in support of retaining the exemption from a representative of the Greater North Dakota Chamber. The testimony indicated, based on information from the United States Chamber of Commerce, data centers throughout the United States provided 600,000 jobs in 2023, and paid $715 billion in federal, state, and local taxes from 2017 through 2023. The testimony contended maintaining consistency in tax policy and tax incentives allows businesses to plan for the future and may attract new businesses to the state.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the sales tax exemption. The committee's review did not result in any specific recommendations regarding potential modifications to the exemption.

Conclusion

The committee makes no recommendation regarding the sales tax exemption for qualified data centers.

Biologic Manufacturing Sales Tax Exemption

Explanation of the Exemption

Sections 57-39.2-04.19 and 57-40.2-03.3 provide a sales and use tax exemption for gross receipts from sales of raw materials, single-use product contact systems, and reagents used directly for discovery, testing, screening, and production for biologic manufacturing in this state. To receive the exemption at the time of purchase, the taxpayer must receive a certificate from the Tax Commissioner verifying the raw materials, single-use product contact systems, or reagents qualify for the exemption. The exemption is scheduled to expire on July 1, 2029.

A taxpayer claiming the exemption is required to file an annual report with the Tax Commissioner containing information regarding use of the exemption and the taxpayer's economic activity in the state, including total gross payroll, total property taxes paid and square footage of buildings owned by the taxpayer, total North Dakota workforce safety and insurance premiums paid, North Dakota unemployment tax paid, and total state income tax withheld by the taxpayer. Failure to submit the required report results in disallowance of the exemption and assessment of any tax due. The Tax Commissioner is required to summarize the information provided in the taxpayer reports and provide the summary to the Legislative Management by June 1 of each year.

Perceived Goals in Creating and Altering the Exemption

The biologic manufacturing sales tax exemption was enacted in 2023. The perceived goal of the Legislative Assembly in creating the exemption was to strengthen the state's biologic manufacturing industry by improving the state's competitiveness in attracting and retaining biologic manufacturing investment. The exemption also was intended to help reduce operating costs for biologic manufacturers, encourage business expansion and relocation to the state, and support additional investment in research and development to lead to improved technologies, improved products, and greater potential for the long-term success of the industry.

Biologic Manufacturing Sales Tax Exemption Report

The committee was assigned the responsibility to receive an annual report from the Tax Commissioner summarizing information provided by taxpayers that received a sales tax exemption for raw materials, single-use product contact systems, and reagents used for biologic manufacturing, pursuant to Section 57-39.2-04.19. The following table includes information received in the report:

Reported Item	Tax Year 2023	Tax Year 2024	Tax Year 2025
Sales and use tax exemption	$1,792,476	$4,400,673	$3,315,406
Gross payroll*	$89,010,581	$96,528,257	$82,494,035
Total state income tax withheld*	$2,232,085	$2,285,769	$1,832,535
North Dakota property taxes paid	$59,625	$116,630	$118,001
North Dakota Workforce Safety and Insurance premiums paid	$97,122	$76,938	$120,854
North Dakota unemployment taxes paid	$26,631	$62,447	$81,607

*Includes payroll and taxes paid in multiple states

Testimony and Committee Considerations

The committee received testimony in support of retaining the exemption from representatives of the Bioscience Association of North Dakota, Aldevron, the Greater Fargo Moorhead Economic Development Corporation, and the Economic Development Association of North Dakota.

A representative of the Bioscience Association of North Dakota indicated the exemption supports the bioscience industry and advocated for its retention.

A representative of Aldevron provided information regarding the company's use of the exemption and the benefits of the exemption. The committee was informed Aldevron reported sales tax exemptions totaling $4,366,772 and gross payroll totaling $95,502,547 in 2024. Other states, including Minnesota, Wisconsin, and Iowa, also offer tax incentives for the bioscience industry. The testimony contended the exemption generates ancillary economic activity through client, vendor, and staff travel to Fargo.

A representative of the Greater Fargo Moorhead Economic Development Corporation provided testimony regarding the growth of the bioscience sector in the state which indicated the economic impact increased from $103 million in 2014, to $507 million in 2024, and the number of jobs increased from 919 in 2019, to 1,439 in 2024.

A representative of the Economic Development Association of North Dakota provided testimony in support of retaining the exemption, which emphasized economic development incentives help attract and retain businesses, support economic growth, and promote a competitive business climate.

A representative of the Department of Commerce provided information regarding the use of sales tax exemptions for economic development. The testimony contended sales tax exemptions encourage in-state capital investment, generally increase in value as the size of a project increases, and may help attract and retain businesses by providing a competitive tax environment.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the exemption. The committee did not identify any concerns relating to the exemption or express an interest in repealing the exemption or expanding the scope of the exemption.

Conclusion

The committee makes no recommendation regarding the biologic manufacturing sales tax exemption.

Coal Processing Facility that Utilizes Coal as a Feedstock Sales Tax Exemption

Explanation of the Exemption

Sections 57-39.2-04.21 and 57-40.2-03.3 provide a sales and use tax exemption for materials used to construct or expand a coal processing facility that utilizes coal as a feedstock, including facilities that extract critical minerals or rare earth elements from lignite coal or creates tangible personal property other than electricity, water, gas, or steam from lignite coal. To receive the exemption at the time of purchase, the facility owner must receive a certificate from the Tax Commissioner verifying the tangible personal property the facility owner intends to purchase qualifies for the exemption. To qualify for the exemption, the tangible personal property must be incorporated in the facility or used in the construction process to the point of having no residual economic value.

Perceived Goals in Creating and Altering the Exemption

The sales and use tax exemption for materials used to construct or expand a coal processing facility that utilizes coal as a feedstock was enacted in 2023. The perceived goal of the Legislative Assembly in creating the exemption was to encourage investment in facilities that extract critical minerals and rare earth elements from lignite coal and to position the state as a leader in domestic rare earth and critical mineral production. The perceived goal also was to encourage investment in facilities that extract critical minerals and rare earth elements from lignite coal, support diversification and expansion of the state's coal industry, attract global investment, and promote development of industries that rely on these resources.

Testimony and Committee Considerations

A representative of the Tax Department indicated the sales tax exemption has not been claimed by any taxpayers since the exemption was enacted.

The committee received testimony in support of retaining the exemption from a representative of the Lignite Energy Council. The testimony indicated the exemption has not been used because efforts to extract critical minerals from coal remain in the research and development stage. The testimony supported continuation of the exemption to encourage future investment in domestic production of critical minerals from coal and emphasized the importance of critical minerals to national security and advanced technologies.

A representative of the Economic Development Association of North Dakota testified that economic development incentives help attract and retain businesses, support economic growth, and promote a competitive business climate.

The committee received information from a representative of the Department of Commerce regarding the use of sales tax exemptions for economic development. The testimony contended sales tax exemptions encourage in-state capital investment, generally increase in value as the size of a project increases, and may help attract and retain businesses by providing a competitive tax environment.

The committee did not receive testimony from other interested parties in support of eliminating or modifying the sales tax exemption. The committee did not identify any concerns relating to the exemption or ways in which the exemption could be improved. The committee did not indicate a desire to eliminate the exemption as a result of the exemption's lack of use.

Conclusion

The committee makes no recommendation regarding the sales tax exemption for a coal processing facility that utilizes coal as a feedstock.

STRIPPER WELL OIL EXTRACTION TAX EXEMPTION STUDY

Section 2 of House Bill 1483 (2025) directed a study of the oil extraction tax exemption for production from a stripper well property or an individual stripper well, including the number of oil wells and amount of oil production qualifying for the exemption, and the estimated fiscal impact of the exemption. The study required consideration of alternative tax policies and input from the Tax Commissioner, the Director of the Department of Mineral Resources, and representatives from the oil and gas industry.

Background

The oil extraction tax applies to the value of oil produced at the wellhead, and the tax rate is 5 percent. Pursuant to Section 57-51.1-03, oil production from a certified stripper well or stripper well property is exempt from the oil extraction tax. The Department of Mineral Resources certifies stripper wells and stripper well properties for the tax exemption. To be eligible for certification, average daily oil production in the preceding 12 months must be less than or equal to a certain threshold. Once certified, a stripper well or stripper well property remains eligible for the exemption even if oil production exceeds the qualification threshold.

The stripper well property designation applies only to wells drilled and completed before July 1, 2013, and excludes a separate production threshold for oil wells in the Bakken and Three Forks Formations. A well qualifies as a stripper well if the average daily oil production in the preceding 12 months did not exceed the following thresholds:

- 10 barrels per day for a well with a depth of 6,000 feet or less;
- 15 barrels per day for a well with a depth of more than 6,000 feet but not more than 10,000 feet;
- 30 barrels per day for a well with a depth of more than 10,000 feet outside of the Bakken and Three Forks Formations; and
- 35 barrels per day for a well with a depth of more than 10,000 feet within the Bakken and Three Forks Formations.

Testimony and Committee Considerations

Oil Production Statistics

A representative of the Department of Mineral Resources provided information indicating, as of March 2026, approximately 54 percent of North Dakota's producing oil wells are certified as stripper wells, and those wells account for approximately 16 percent of the state's oil production. Based on historical production data, the department estimated an oil well reaches the qualifying oil production threshold for stripper well status within 10 years after initial production. Approximately 900 new oil wells begin production each year, all of which could qualify as stripper wells in the future as oil production declines over the life of the well.

A representative of the Energy and Environmental Research Center provided information indicating in June 2026, 75 percent of oil wells in the Bakken may qualify for stripper well status within 7 years after initial production, and an estimated 70 to 90 percent of the well's total lifetime production is recovered before qualifying for stripper well status. Advances in enhanced oil recovery techniques, such as refracturing, may increase oil production from a well, which may delay a well in qualifying for stripper well status.

Stripper Well Taxation in Other Selected States

A representative of the Tax Department provided testimony regarding oil and gas taxation in other states which indicated stripper well taxation may apply to marginal wells, stripper wells, or low-producing wells. The following table provides information reported by the department in December 2025 on the structure of oil and gas taxation, including stripper well taxation, in other selected states.

State	Oil and Gas Taxation Structure	Stripper Well Taxation Structure
Alaska	35 percent on the net value of oil production and 13 percent on the gross value of natural gas production	No specific provisions
Montana	Variable rate on the gross taxable value of oil and natural gas production based on the type of well	Variable rate applied to the gross taxable value based on the type of well and type of production
New Mexico	6.9 percent on the taxable value of oil and natural gas	Reduced tax rate of 1.875 or 2.8125 percent
Oklahoma	7 percent on the gross value of oil and natural gas production	An exemption from 6/7 of the tax if the tax rate is 7 percent or an exemption from 4/5 of the tax if the tax rate is 5 percent
Texas	4.6 percent on the market value of oil and 7.5 percent on the market value of natural gas production	Credits for low-producing wells ranging from 25 to 100 percent of the tax due
Wyoming	6 percent on the fair market value of oil and natural gas production	Reduced tax rate of 4 percent

Estimated Fiscal Impact of the Stripper Well Tax Exemption

A representative of the Tax Department provided oil price and production data for the 2023-25 biennium. The department estimated the stripper well tax exemption reduced the oil extraction tax collections by $406.6 million. Under an alternate stripper well taxation scenario, oil extraction tax collections could increase by $81.2 million per biennium if new stripper wells were subject to a 1 percent oil extraction tax rather than being exempt from the tax beginning in the 2027-29 biennium.

The testimony contended changes to the stripper well tax exemption could impact the amount of oil extraction tax collections available for allocations. Pursuant to constitutional and statutory provisions, the oil extraction tax collections are allocated to the Three Affiliated Tribes of the Fort Berthold Reservation, Legacy Fund, Common Schools Trust Fund, Foundation Aid Stabilization Fund, Resources Trust Fund, and other state funds.

Industry Comments

A representative of the North Dakota Petroleum Council provided testimony which contended the stripper well tax exemption improves the economics of low-producing wells, allowing those wells to continue producing, which is important for small operators in the state. The testimony indicated the varying production thresholds to qualify for the exemption account for differences in production costs with deeper wells qualifying for the exemption sooner due to higher production costs.

Committee Discussion

Committee members discussed the stripper well oil extraction tax exemption and emphasized the importance of evaluating the broader economic and revenue implications of policies affecting the oil and gas industry. Committee members expressed concerns regarding the potential economic and fiscal effects of modifying the stripper well oil extraction tax exemption and noted the importance of considering the industry's substantial contribution to the state's economy and tax climate when evaluating proposals to modify the stripper well oil extraction tax exemption. Committee members noted, because the exemption does not apply to the oil and gas gross production tax, changes to the stripper well tax exemption may cause oil operators to stop production from low-producing wells resulting in the loss of oil and gas gross production tax collections, a portion of which are distributed to political subdivisions.

Conclusion

The committee makes no recommendation regarding the stripper well oil extraction tax exemption study.