



North Dakota Legislative Council

Prepared for the Tax Reform and Relief Advisory Committee
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PROPERTY TAX REFORM AND RELIEF - BACKGROUND MEMORANDUM

Section 27 of House Bill No. 1176 (2025) ([Appendix A](#)) requires the Legislative Management to appoint a Tax Reform and Relief Advisory Committee to study property tax reform and relief. Based on information provided by the Tax Department and input from local taxing districts, the study must include consideration of:

- Historical income and 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 regarding the progress of implementing the primary residence credit and primary residence certification process.
- A report from the Tax Commissioner to be submitted to the committee no later than June 1, 2026, which contains findings regarding the impact of the property tax levy limitation under North Dakota Century Code Section 57-15-01.2 based on information provided to the Tax Commissioner from local taxing districts.
- The feasibility and desirability of revising the content of the real estate tax statement to improve transparency in property taxation.
- Information and analysis from the Tax Commissioner, State Supervisor of Assessments, and local taxing district representatives related to tax exempt property as requested by the committee. The bill authorizes the Tax Commissioner and State Supervisor of Assessments, upon request by the committee, to gather and compile information from local taxing districts and, if necessary, to develop a uniform method to be used by the county directors of tax equalization and city, county, and township assessors to estimate true and full value if actual values are not available.

PROPERTY TAX OVERVIEW

Property tax is levied in every state and provides a vital source of revenue for local governments. According to the Tax Department's 2024 publication, *State and Local Taxes: An Overview and Comparative Guide* (known as the "Red Book"), just over \$1.4 billion in property tax was levied in the state in 2023 for payment in 2024. Property tax is levied on real property, which generally consists of land and permanent improvements. The tax on personal property was abolished in North Dakota in 1970 through the passage of Senate Bill No. 137 (1969), and a reimbursement formula was developed to redirect a portion of sales and use tax revenue to taxing districts to compensate for lost personal property tax revenue. In 1981, the Legislative Assembly substantially restructured real property taxation by creating a new property classification system and developing procedures for establishing a property's true and full value, assessed value, and taxable value. These valuation procedures remain in use and mark the first step in the property tax cycle. The steps that follow include notifying property owners of valuations, hearing property owner objections, equalizing property values, holding budget hearings, completing tax lists, and mailing property tax statements.

Classification and Valuation

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. The Tax Department's Red Book provides a list of property tax exemptions and credits, separated by property classification.

The first step in calculating a property's taxable valuation is determining the property's true and full value. The methods used to determine a property's true and full value depend on the property's classification. A property is classified as either residential, commercial, agricultural, or centrally assessed. Beginning in tax year 2026, the residential classification will be subdivided into two distinct classifications--primary residential property and nonprimary residential property. Despite this subdivision, both will continue to be collectively referred to as residential property. The "true and full value" of a property is determined by considering the earning or productive capacity, if any; the market value, if any; and all other matters that affect the actual value of the property. For purposes of agricultural property, this includes farm rentals, soil capability, soil productivity, and soils analysis.

Assessors use a property's true and full value to calculate the property's assessed value. The assessed value of property is equal to 50 percent of the property's true and full value. The taxable value of the property is determined as a percentage of assessed value, which is 9 percent for residential and 10 percent for agricultural, commercial, and centrally assessed property. Applying these calculations, a parcel of residential property with a true and full value of \$100,000 would have an assessed value of \$50,000 and a taxable value of \$4,500.

The true and full value of residential and commercial property is determined by local assessors and represents the assessor's estimate of the property's market value. Local assessors meet with the county auditor on or before the second Wednesday in February to discuss their assessment duties, which must be completed before April 1 of each year. Owners of locally assessed property receive notice from local assessors of the true and full value of their parcel for the current and previous year, including improvements. The notice must be delivered at least 15 days before the meeting of the local board of equalization and must contain information regarding the date, time, and location of the meeting of the local board of equalization and county board of equalization.

The true and full value of agricultural property is based on productivity and is calculated by North Dakota State University using the capitalized average annual gross return of the land. Annual gross return is determined from crop share rent, cash rent, or a combination thereof. Annual gross return must be reduced by estimated property taxes and crop marketing expenses incurred by farmland owners renting their lands on a cash- or crop-share basis. The average annual gross return for each county is determined by taking annual gross returns for the county for the most recent 10 years, discarding the highest and lowest annual gross return years, and averaging the remaining 8 years. Statistics from the most recent 10 years for prices paid by farmers are used to adjust annual gross return. Annual gross return is then capitalized using a 10-year average of the most recent 12-year period for the gross Agribank mortgage rate of interest. Personnel from North Dakota State University determine an average agricultural value per acre for cropland and noncropland on a statewide and countywide basis. This information is provided to the Tax Commissioner by December 1 of each year and then provided by the Tax Commissioner to each county director of tax equalization. The county director of tax equalization provides each assessor within the county an estimate of the average agricultural value of agricultural lands within the assessor's assessment district. The local assessor determines the relative value of each assessment parcel within that assessor's jurisdiction. In determining relative values, the local assessors consider, in descending order of significance, actual use of the property by the owner, soil type and soil classification data, and a schedule of modifiers approved by the State Supervisor of Assessments.

The true and full value of railroad, public utility, airline, and oil or gas pipeline property is centrally determined by the State Board of Equalization. The owner of centrally assessed property files an annual report with the Tax Commissioner by May 1 and the Tax Commissioner prepares a tentative assessment for the property by June 15. Owners of centrally assessed property receive notice from the Tax

Commissioner of their tentative property assessment at least 10 days before the State Board of Equalization meeting.

Equalization and Abatements

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. A property owner initially may present concerns to the local township or city board of equalization, which meets to review property valuations in April of each year. A property owner may appeal the property valuation to the county board of equalization and then the State Board of Equalization. The county board of equalization meets in June to equalize values among assessment districts within the county and the State Board of Equalization meets in July and August. The State Board of Equalization meets on the second Tuesday in July to receive testimony on the value of centrally assessed property and finalize assessments. Finalized assessments are certified by the Tax Commissioner to the counties to reflect the portion of centrally assessed property for each property owner which is taxable in that county. The board meets on the second Tuesday in August to address locally assessed property and equalize values among counties and districts within a county. The county auditor is required to adjust the valuation of each tract or lot of property in the auditor's county in accordance with the determinations made by the State Board of Equalization.

In place of the more informal equalization process, a property owner may elect to use a more formal appeal process in contesting a property tax assessment. A property owner may commence the abatement process by filing an application for abatement and refund of taxes. Several layers of review are involved in the abatement process, which may culminate in appeal of the decision of the board of county commissioners to the district court and then to the North Dakota Supreme Court. Several statutory grounds exist for granting an abatement, including invalid, inequitable, or unjust assessments. Other grounds for abatement include erroneous computation of the tax, assessment of improvements that did not exist on the assessment date, assessment of exempt property, assessment of damaged or destroyed improvements, and assessment of the same parcel more than once.

Taxing District Budgets

Once valuations are finalized following the equalization process, each taxing district prepares a budget. Notice of the date, time, and location of the taxing district's public budget hearing must be delivered to the county auditor by August 10. The county treasurer provides written notice of taxing district budget hearings to property owners on or before August 31. The written notice also contains information regarding the location at which a property owner may view the taxing district's budget and notice that citizens may present oral or written comments regarding each taxing district's property tax levy. Budget hearings for all taxing districts must be scheduled for no earlier than September 7. For cities and park districts, hearings also must be scheduled for no later than October 7.

A taxing district's budget may be adjusted based on input received at the public hearing and is further adjusted by deducting all nonproperty tax revenue, including state aid and the taxing district's unobligated cash balances. The amount remaining after adjustments and deductions equals the amount of property tax revenue required by the taxing district (the taxing district's levy in dollars). The deadline for taxing districts to amend budgets and send copies of the levy and budget to the county auditor is October 10.

Property Tax Determination

The amount budgeted by a taxing district may not result in a tax levy exceeding 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.

Related to the taxing district levy limitation under Section 57-15-01.2, House Bill No. 1176 (2025) imposed a limitation on the taxing district's levy in dollars beginning in tax year 2025. The 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 levy 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. Notably, this levy limitation supersedes and limits any unused or excess levy authority that may be available to a taxing district under any other provision of law. The levy limitation does not provide a taxing district additional levy authority and must be applied to limit levy authority to which a taxing district is otherwise entitled. Section 57-15-01.2 contains a list of items to which this levy limitation does not apply and restricts cities and counties from superseding or modifying the application of the limitation under home rule authority.

With regard to the mill levy limitations under Chapter 57-15, the Tax Commissioner prepares a *Schedule of Levy Limitations*, which is available on the Tax Commissioner's website. The *Schedule of Levy Limitations* outlines the maximum number of mills a taxing district may levy for specified purposes. Senate Bill No. 2144 (2015), substantially revised taxing district levy authority by consolidating various individual levies for counties, cities, townships, and other political subdivisions and repealing unused levies. Following a phased transition period, the bill limited counties to levying no greater than 60 mills for county general fund purposes, cities to levying no greater than 105 mills for city general fund purposes, and park districts to levying no greater than 38 mills. Though the maximum number of mills a taxing district may levy is uniform, the amount of revenue generated per mill varies between taxing districts.

One mill is equal to one-tenth of one cent, or \$1 for each \$1,000 of taxable value. Thus, a levy of one mill will raise more property tax revenue in a taxing district with a higher taxable value than it will raise in a taxing district with a lower taxable value. For instance, one mill levied in a taxing district containing properties totaling \$100,000 in taxable value will raise only \$100 in property tax revenue while one mill levied in a taxing district containing properties totaling \$200,000 in taxable value will raise \$200 in property tax revenue. To raise the same dollar amount of property tax revenue, the taxing district with the lower taxable value would have to levy twice the number of mills as the taxing district with the higher taxable value.

To determine the overall mill rate for a taxing district, the county auditor verifies the amounts levied are within statutory levy limitations and divides the total amount of property tax revenue required by the taxing district by the total taxable value of all property in the taxing district. The resulting mill rate is multiplied by the taxable value of a property owner's parcel to determine the amount of property tax owed by the property owner.

The tax due on airline property is calculated in a slightly different manner by averaging the mill levies in all of the cities served by the airline and then multiplying the average levy amount by the taxable valuation of the airline property.

The deadline for the county auditor to deliver property tax lists to the county treasurer is December 10. 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 the true and full value of the property; 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; the amount of property tax levied as a result of certain mills levied by a school district for the current year and the 2 immediately preceding taxable years; and the dollar amount of property tax savings realized by the property owner in the form of legislative tax relief. Additionally, for primary residence property tax statements, the statement must include the primary residence credit amount realized by the taxpayer and the portion of the primary residence credit which was derived from funding distributed from the legacy fund.

Payment of Tax and Payments In Lieu of Taxes

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. If property taxes are paid in full by February 15, the property owner is entitled to a 5 percent discount. Penalties begin to accrue if property taxes are not paid by March 1. A property owner has the option of paying property taxes in installments. All locally assessed property taxes

are collected by the county and distributed among appropriate taxing districts. Taxes imposed on an airline are collected by the Tax Commissioner and remitted to the State Treasurer for distribution to the cities in which the airline operates.

State law provides some enterprises make payments in lieu of taxes rather than paying property taxes. Mutual or cooperative telephone companies and investor-owned telephone companies pay a tax of 2.5 percent of adjusted gross receipts on property used in two-way communications services. This tax is paid to the Tax Commissioner and allocated among counties. Coal conversion facility taxes and oil and gas gross production taxes also are paid in lieu of property taxes. These taxes are allocated by state law and provide revenues to affected taxing districts.

Through 2009, rural electric cooperatives paid a 2 percent gross receipts tax in lieu of property taxes for all property except land. Beginning in 2010, Senate Bill No. 2297 (2009) changed taxation of rural electric cooperatives from a gross receipts tax to a transmission line mile tax of \$50 to \$600 per mile and a distribution tax of \$0.80 per megawatt-hour for retail sales to consumers in this state. Revenues from the tax are considered payments in lieu of taxes and are allocated to political subdivisions based on location of transmission lines and, for distribution lines, based on location of distribution lines and sales from those lines. Rural electric cooperatives with generating facilities are subject to a transmission line tax of \$300 per mile in lieu of property taxes on transmission lines of 230 kilovolts or more.

Wind turbine electric generation units not taxed under Chapter 57-06 are subject to a tax of \$2.50 per kilowatt times the rated capacity of the wind generator and a tax of one-half of one mill per kilowatt-hour of electricity generated by the wind generator during the taxable period. Grid-connected generators that are part of a project with generation capacity of 100 kilowatts or more, not produced from wind or produced from coal not subject to the coal conversion taxes under Chapter 57-60, are subject to a tax of \$0.50 per kilowatt times the rated capacity of the generation unit and a tax of one mill per kilowatt-hour of electricity generated by the production unit during the taxable period.

Property owned by certain state agencies, nonprofit entities, and agencies and instrumentalities of the federal government also are subject to payments in lieu of property taxes. Mobile homes, certain pipelines, certain transmission lines, and certain forest lands are subject to payments in lieu of property taxes. New and expanding business may be granted the right to make payments in lieu of property taxes under Section 40-57.1-03.

PROPERTY TAX STATISTICS

The Tax Department provides a variety of property tax statistics in the Red Book. Attached is a summary ([Appendix B](#)) included in the Tax Department's 2024 Red Book, which provides a detailed accounting of the amount levied in each county in taxable years 2020 through 2023, payable in years 2021 through 2024. The summary indicates that \$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. An additional summary ([Appendix C](#)) from the 2024 Red Book provides a breakdown of the percentage of property tax levied by each taxing district in relation to the total amount levied. This summary indicates 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.

TRADITIONAL CONTROLS ON GROWTH OF PROPERTY TAX LEVIES

North Dakota has traditionally relied on three kinds of restricting factors to limit property tax burdens:

1. **State law** - Constitutional and statutory provisions impose levy limits, voter approval requirements, and debt limits. Statutory provisions have provided for property tax relief and state assumption of program costs for some local government functions.
2. **Governing body self-restraint** - Local elected officials are presumed to act in the best interests of the political subdivision and its taxpayers. Political considerations relating to being elected or re-elected exist to restrain local spending to a level deemed acceptable by the majority of voters.

Local elected officials are taxpayers of the taxing district they serve and do not want an excessive property tax levy any more than other taxpayers.

3. **Taxpayer and citizen participation** - This factor is closely related to governing body restraint. It is a premise of the property tax that the taxpayers subject to the tax will inform their elected officials by direct communication or by voting, either for officeholders or on ballot measures regarding taxing and spending issues, of the desired level of services and the amount of tax burden they find acceptable to provide the desired services.

RECENT PROPERTY TAX REFORM AND RELIEF LEGISLATION

This section provides an overview of legislation enacted during the 2023 and 2025 legislative sessions related to property tax reform and relief.

2023 Legislation

House Bill No. 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. Under the program, only one credit could be applied against the property taxes levied against the primary residence and the credit could not exceed the property tax due on the primary residence. The credit was applied to reduce the property tax owed on the primary residence after other property tax credits and exemptions had been applied, if any tax liability remained. The credit could not reduce the liability for special assessments levied upon any property. To receive the credit, a qualifying taxpayer was required to sign and file with the Tax Commissioner an application containing a verified statement of facts establishing the applicant's eligibility for the credit. The bill also provided a procedure for state reimbursement to each county in the amount of the total credits allowed in the county.

House Bill No. 1158 expanded the homestead tax credit program, 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. The adjustments made to the brackets are outlined below:

Homestead Tax Credit Brackets Following Enactment of House Bill No. 1158			
Income	Maximum Reduction in Taxable Valuation	Equivalent Maximum Reduction in True and Full Valuation	Maximum Percentage Reduction in Valuation
\$40,000 or less	\$9,000	\$200,000	100%
\$40,001 to \$70,000	\$4,500	\$100,000	50%

House Bill No. 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 No. 2006 required that the assessment increase notice to property owners include 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.

2025 Legislation

House Bill No. 1176 provided for property tax reform and relief in numerous ways. The bill:

- Increased the primary residence credit from \$500 to \$1,600 beginning in tax year 2025 and removed the sunset clause to extend the program beyond 2025.
- Established a transition period during tax year 2025 to provide for application of the primary residence credit to real estate tax and mobile home tax statements within the same tax cycle beginning in tax year 2026.
- Created a new property classification for primary residential property separate from other nonprimary residential property beginning in tax year 2026. The bill set forth the criteria and

certification process required to qualify for the classification and integrated the existing primary residence credit with the new classification once the classification takes effect.

- Subject to certain exceptions, capped annual growth in property taxes levied by a taxing district at 3 percent, plus any unused excess percentage increase from the 5 preceding taxable years, without requiring voter approval. The limitation applies to the greater of the highest amount levied by the taxing district in the 3 preceding taxable years or the amount levied in the preceding taxable year with adjustments. The limitation does not apply to a specified set of levies expressly enumerated in statute.
- Increased the maximum disabled veterans' credit from \$8,100 to \$9,000 in taxable value and expanded eligibility to include properties co-owned with a parent or child of the disabled veteran.
- Raised the maximum homestead renter's refund from \$400 to \$600.
- Replaced the requirement to provide notice of assessment increases with an annual notice to all locally assessed property owners of the true and full value of the property for the current and previous year.
- Removed the requirement to provide the county auditor with a copy of the preliminary budget statement and replaced the estimated property tax notice with a notice containing only the date, time, and location of the taxing district's public budget hearing and notification of the taxpayer's right to present comments regarding each taxing district's levy.
- Modified the required content of the real estate tax statement to include the amount of property tax levied as a result of certain mills levied by a school district and, for primary residence statements, the primary residence credit amount realized by the taxpayer and the portion of the primary residence credit which was derived from funding distributed from the legacy fund.

House Bill No. 1176 also provided for 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 district's local contribution to the cost of education below 60 mills to comply with the property tax levy limitation and included a number of funding provisions to provide funding for the primary residence credit from the legacy property tax relief fund. Lastly, the bill included a statement of legislative intent indicating that the 69th Legislative Assembly intended for the 70th Legislative Assembly to consider using funding available from the legacy property tax relief fund exceeding the amount needed for the primary residence credit to provide property tax relief to other property classifications.

Senate Bill No. 2039 updated the definition of "agricultural property" for tax purposes to clarify that "raising agricultural crops" includes the storage of harvested crops produced by a farmer or a direct relative of the farmer until the crop is delivered to the first end-point user. The bill clarified the statutory conditions applicable to property platted on or after March 30, 1981, may not be used as a basis to exclude unplatted land used to raise agricultural crops from being classified as agricultural property. The bill also expanded the farm structure property tax exemption to apply to certain farmer-owned structures used exclusively for storage of harvested crops produced by the farmer or the farmer's direct relative which are located within the corporate limits of a city and affixed to land platted and assessed as agricultural property before March 30, 1981.

Senate Bill No. 2201 extended the \$500 primary residence property 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 No. 1176 to provide additional property tax relief through the primary residence credit program.

Senate Bill No. 2367 restructured the order of considerations a local assessor is required to apply when determining the relative value of a parcel of agricultural property by moving the actual use of the property by the owner to the most significant consideration on the list, followed by soil type and soil

classification data and a schedule of modifiers approved by the State Supervisor of Assessments, in descending order of significance.

RECENT PROPERTY TAX RELATED INTERIM STUDIES

2021-22 Interim

Pursuant to a directive by the Legislative Management Chairman, the Taxation Committee was directed to study the feasibility and desirability of providing holistic tax reform and relief, focusing primarily on property tax relief and, to a lesser extent, income tax relief. The committee was required to consider current and projected state revenues and expenditures, the stability of state revenue sources identified as a funding source for tax relief, the intended recipients of tax relief, and potential restrictions on tax relief. The committee made no recommendation for legislation related to this study.

2023-24 Interim

Section 5 of House Bill No. 1158 (2023) required the appointment of a Tax Relief Advisory Committee to study tax relief, including income and property tax relief. Related to property tax, the study required consideration of historical property tax relief provided by the Legislative Assembly and analysis of tax relief provided by the 68th Legislative Assembly through the primary residence credit and expansion of the homestead tax credit. The committee also was required to receive updates from the Tax Commissioner and local taxing districts on the progress of implementing the primary residence credit. The committee made no recommendation for legislation related to this study.

POSSIBLE STUDY APPROACH

The following is a possible study approach for the committee's consideration in its study of property tax relief:

1. Receive information from the Tax Department and input from local taxing districts, as appropriate, including information regarding:
 - a. Historical income and property tax relief provided by the Legislative Assembly.
 - b. The estimated and actual fiscal impact of the property tax relief provided by the 69th Legislative Assembly.
 - c. The progress of implementing the primary residence credit and primary residence certification process.
 - d. The Tax Commissioner's findings regarding the impact of the property tax levy limitation under Section 57-15-01.2 based on information from local taxing districts.
 - e. The feasibility and desirability of revising the content of the real estate tax statement to improve transparency in property taxation.
 - f. Information and analysis related to tax exempt property as requested by the committee.
2. Receive input as necessary from representatives of the Tax Department, local taxing districts, and interested parties regarding implementation of tax reform and relief programs enacted during the 2025 legislative session, other study criteria, and administration of proposed legislation considered by the committee.
3. Develop recommendations and any bill drafts necessary to implement the recommendations.
4. Prepare a final report for submission to the Legislative Management.

ATTACH:3