

NORTH DAKOTA'S STATE AND LOCAL TAX SYSTEM - AN OVERVIEW

Norbert A. Dorow
Economist, NDSU Extension Service

Jay A. Leitch
Associate Professor
Department of Agricultural Economics

James F. Baltezare
Research Assistant
Department of Agricultural Economics
North Dakota State University

4.3
'9
8
88
963



NDSU EXTENSION SERVICE

North Dakota State University, Fargo, ND 58105

FOREWORD

This publication is designed to help citizens better understand North Dakota's state and local tax system and the use of taxes in providing our major state and local public services.

This publication is an abbreviated version of the more comprehensive publication, "North Dakota's State and Local Tax System." It also includes a summary of the research publication, "Evaluation of State-Level Tax Equity in North Dakota in 1986." These two publications were developed from a tax study conducted cooperatively by the NDSU Extension Service and the department of agricultural economics, Agricultural Experiment Station, and with support from the office of vice-president for academic affairs at NDSU.

The Extension Service and Experiment Station at North Dakota State University have a responsibility to provide information on public issues such as taxes and financing public services, but not to prescribe solutions. The information will help citizens discuss tax and public finance issues and to express their preferences to their elected state and local officials toward achieving their goals in taxation and financing public services.

Much of the information in this publication was developed from reports and related information from various state agencies. The authors wish to express appreciation for the fine cooperation of the following state departments and offices: State Tax Department, State Highway Department, Motor Vehicle Department, Office of Management and Budget, Department of Public Instruction, Board of Higher Education, Department of Human Services, and Department of Health.

Accuracy of the information and data and views expressed or implied are the responsibility of the authors.

Table of Contents

	Page
List of Tables.....	2
List of Figures.....	3
Summary.....	4
Government Structure in North Dakota.....	5
Financing Governments in North Dakota.....	6
The Tax System.....	7
Evaluating a Tax System.....	9
Evaluation of North Dakota's Major Taxes.....	11
State Collected Taxes.....	13
Sales and Use Taxes and Motor Vehicle Excise Tax.....	13
Individual Income Tax.....	14
Corporate Income Tax.....	15
Highway Use Taxes.....	15
Motor Fuel Taxes.....	15
Motor Vehicle Registration Fees.....	17
Oil and Gas Taxes.....	17
Coal Severance Tax.....	19
Coal Conversion Tax.....	20
Other State Taxes.....	20
State Taxes--An Overview.....	22
General Fund Revenue.....	23
Local Government Revenue.....	25
Property Taxes.....	25
Administration of the Property Tax.....	25
Property Tax Levies and Distribution.....	28
Special Assessments.....	29
Local Sales Tax.....	29
Total State and Local Taxes.....	31
Evaluation of State and Local Tax System.....	32
Tax Equity Study.....	33
Financing Major State and Local Public Services.....	35
General Fund Expenditures.....	35
Public Elementary and Secondary Schools.....	35
Higher Education.....	37
Human Services and Welfare.....	37
Public Health-State Department of Health.....	37
Highways, Roads and Streets.....	38
Outlook for Financing State and Local Public Services.....	40
Policy Decisions.....	41

List of Tables

		Page		Page	
Table 1.	Estimated General Revenue of State and Local Governments by Source, North Dakota, Fiscal 1986.	6	Table 15.	Special Assessments, Cities and Rural Units, Percent Increase, 1977-1981, North Dakota.	29
Table 2.	Total State and Local Taxes, North Dakota, Fiscal 1978 and 1987, and Percent Change from 1978 to 1987. . .	8	Table 16.	Property Taxes Per Capita and Percent of State and Local Taxes, North Dakota and Nearby States, Fiscal 1986.	30
Table 3.	Sales Tax Rates, Fiscal 1988, and Per Capita Taxes, Fiscal 1987, North Dakota and Nearby States.	14	Table 17.	Total Property and Sales and Use Taxes, Three Cities, 1987.	30
Table 4.	Comparison of State Individual Income Tax Collections, Per Capita, North Dakota and Nearby States, Fiscal 1987.	15	Table 18.	Percentage of Total Revenue by Source for Local Governments, Fiscal 1986, for Schools, 1987, North Dakota.	30
Table 5.	Distribution of All Motor Fuel and Special Fuels Taxes for Highway and Road Purposes, North Dakota, Fiscal 1987.	16	Table 19.	Per Capita State Taxes, Property Taxes, Total Taxes, and Personal Income, Fiscal 1987, North Dakota and Nearby States.	31
Table 6.	State Tax Rates on Motor Fuels, October 1, 1987, North Dakota and Nearby States.	16	Table 20.	Per Capita Federal Transfers to State and Local Governments in North Dakota and Nearby States, and U.S. Average, Fiscal 1986.	31
Table 7.	Highway User Revenue Distribution, Fiscal 1987, North Dakota.	17	Table 21.	State General Fund Appropriations for Assistance to Local Governments, 1985-87 Biennium, North Dakota.	36
Table 8.	Distribution of Four-Fifths of Gross Production Tax From a County.	18	Table 22.	State Aid to Public Schools, 1986-87 School Year, North Dakota.	37
Table 9.	Limit on Annual County Oil Revenue Receipts by Population.	18	Table 23.	Appropriated Funds for Higher Education, 1987-88 Year, North Dakota. . .	37
Table 10.	Distribution of Oil and Gas Tax Revenue, North Dakota, Fiscal 1987.	19	Table 24.	Existing Mileage of North Dakota Highways, Roads and Streets, 1986.	38
Table 11.	Distribution of Oil and Gas Production Tax Revenue Among Counties, Fiscal 1987.	19	Table 25.	Estimated Revenue for Highways, Roads and Streets, Fiscal 1987, North Dakota.	39
Table 12.	States Taxes Per Capita, Total and Less Severance Taxes, North Dakota and Nearby States, Fiscal 1987.	24	Table 26.	Expenditures for Highways, Roads and Streets, by Level of Government, Fiscal 1986, North Dakota.	39
Table 13.	Percent of Total Taxes Levied by Class of Property and Percent Increase, 1977 to 1986, North Dakota.	28			
Table 14.	Property Taxes Levied by Government Unit, Percent of Total Property Taxes and Percent Increase, 1977 to 1986, North Dakota.	29			

List of Figures

		Page		Page	
Figure 1.	Total Revenue and Expenditures of State and Local Governments in North Dakota, Fiscal Year 1986.	6	Figure 16.	General Fund Taxes by Major Tax, Fiscal years 1978-1987 and Projected 1988, North Dakota.	23
Figure 2.	Total State and Local Taxes by Source, Fiscal Year 1987, North Dakota	7	Figure 17.	Total General Fund Tax Revenue, Fiscal Years 1978-1987 and Projected 1988, North Dakota.	23
Figure 3.	Total Personal Income, Fiscal Years 1978-87, North Dakota.	7	Figure 18.	State General Fund Revenue by Source, Fiscal Year 1987, North Dakota	24
Figure 4.	Total State Taxes By Source, Fiscal 1987, North Dakota.	13	Figure 19.	Sources of Local Government Revenue in North Dakota, Fiscal Year 1986.	25
Figure 5.	Sales and Use Tax and Motor Vehicle Excise Tax Collections, Fiscal Years, 1978-87, Projected 1988, North Dakota.	13	Figure 20.	Market Values and True and Full Values of Farmland Per Acre, North Dakota, 1974-1987.	26
Figure 6.	Net Individual Income Tax Collections, Fiscal Years 1978-87 and Projected 1988, North Dakota.	14	Figure 21.	Average True and Full Value Per Acre of Farmland Per County as Equalized by Board of Equalization, 1987.	27
Figure 7.	Net State Corporate Income Tax Collections, Fiscal Years 1978-1987 and Projected 1988, North Dakota.	15	Figure 22.	Total Property Taxes Levied by All Taxing Units, Calendar Years 1977-1986 and Projected 1987, North Dakota.	28
Figure 8.	Motor Fuel Tax Collections, Fiscal Years 1978-1987, Projected for 1988, North Dakota.	16	Figure 23.	Total Property Taxes Levied, Percent of Total by Government Units, Calendar Year 1986, Payable in 1987, North Dakota.	29
Figure 9.	Total Motor Vehicle Registration Fees, Fiscal Years 1978-1987 and Projected 1988, North Dakota.	17	Figure 24.	Total State and Local Tax Collections, Fiscal Years 1978-1987, North Dakota, Nominal and Real.	31
Figure 10.	Oil and Gas Tax Collection, Fiscal Years 1978-1987, North Dakota.	18	Figure 25.	Total State Legislative Appropriations, 1985-87 Biennium, by Program	35
Figure 11.	Coal Severance Tax Collections, Fiscal Years 1978-1987, North Dakota	19	Figure 26.	State General Fund Expenditures for 1985-87 Biennium, by Program	35
Figure 12.	Coal Conversion Tax Collections, Fiscal Years 1978-1987, North Dakota	20	Figure 27.	Revenue Sources and Expenditures for Public Schools, School Year 1986-87, North Dakota.	36
Figure 13.	Total State Collected Taxes, Fiscal Years 1978-1987, North Dakota, Nominal and Real and Indexed to Personal Income.	22	Figure 28.	Expenditures of the Department of Human Services, by Major Service, Fiscal 1985-87, North Dakota.	38
Figure 14.	Total State Collected Taxes Less Energy Taxes, Fiscal Years 1978-1987, North Dakota, Nominal and Real and Indexed to Personal Income	22	Figure 29.	Sources of Revenue for Department of Human Services Programs, Fiscal Year 1987, North Dakota.	38
Figure 15.	Initial Distribution of Total State Tax Revenue, Fiscal 1987, North Dakota	23			

Summary

In recent years, North Dakota's economy and tax revenue have been negatively affected by a slow-down in the oil production industry and an economic recession in agriculture.

Providing and financing public services in North Dakota involves cooperation between the state and local governments, including counties, municipalities, townships, school districts and special districts. Sources of revenue include state and local taxes, federal transfers and various non-tax revenues.

Evaluation of a tax system, which includes state and local taxes, is important in developing tax policies to help determine the adequacy of the tax system and if taxpayers across the state are being treated fairly.

North Dakota's state and local tax system includes a number of state taxes and the property tax (the major local government tax). State taxes include the sales and use tax, individual and corporate income taxes, motor fuel taxes, motor vehicle registration fees, oil and coal production taxes and several minor taxes.

Total revenue from state taxes declined from fiscal year 1985 through 1987, even though total personal income continued upward at a rate slightly exceeding the rate of inflation. Sharp declines in revenue from oil taxes and corporate income taxes and some decline in sales taxes accounted for the decline.

Total property tax levies in the state accounted for about 34 percent of total state and local tax revenue in 1987. Total levy increases in recent years have slightly exceeded the rate of inflation. The rate of increase was greater than average on city property, but less than average on farmland.

In comparison with other states, total per capita state and local taxes in North Dakota were lower than in any nearby state except South Dakota, and were about 80 percent of the U.S. average in fiscal 1987.

North Dakota's state and local tax system is a broad based system which allows for broad participation by citizens in helping to pay for government services. However, state tax revenue has not kept pace with revenue needs. The system is fair by the taxation principle of benefits received; however, it does not conform as well by the principle of ability to pay. Except for the individual income tax, the major state and local taxes paid by individuals are regressive to various degrees. That is, higher income people on average pay a smaller percentage of their income as taxes than do lower income people.

About 80 percent of total state and local taxes is used to finance education, health and welfare, and highways, roads and streets. Nearly half of total taxes is for education, with 38 percent for public schools and 10 percent for higher education. Federal transfers provide about 55 percent of the revenue for health and welfare programs and about 37 percent of the revenue for total expenditures of highways, roads and streets.

The outlook for financing public services in North Dakota is less than optimistic. State tax revenue tends to respond to economic activity levels. Present trends indicate rising costs of public services in North Dakota, but not a corresponding rise in tax revenues based on current tax bases and tax rates.

People will decide, through elected representatives in state and local governments, the level of public services they are willing to support. They will also decide which revenue sources, tax or non-tax sources, should be increased, if necessary, to support public services.

North Dakota's State and Local Tax System — An Overview

North Dakotans have generally shared in the improved quality of life experienced by citizens throughout the nation. The strong agricultural, business and industrial sectors, with support of services by our state and local governments, have encouraged economic and social progress.

In recent years, the simultaneous slowdown in the oil production industry and the economic recession in agriculture have had a negative impact on the state's economy and on tax revenue. North Dakota citizens want high quality state and local public services, but are concerned about the tax system and tax revenue needed to support public services.

Government Structure in North Dakota

Under our federal system, the U.S. Constitution recognizes only two levels of government, national and state. However, states recognized the importance of local representation and established local governments to help carry out public services. In effect, our local governments were formed to carry out state government responsibilities at the local level. The state government requires local governments to perform some basic services; however, it also allows local governments to perform other services people want and for which they are willing to pay. Local governments include counties, cities, townships, school districts and special districts.

Counties have statutory responsibilities including law enforcement, judicial administration, recording of legal documents, administering public welfare, collecting property taxes, and others. They also have authority to provide a broad range of other services if supported by the people.

Cities and towns come into existence by incorporation initiated by the people living in an area. Their powers are limited by the state.

Townships in North Dakota provide mainly rural services such as road maintenance, noxious weed control and property assessment. All townships are organized in 26 counties, with part of the townships being organized in the majority of the remaining counties.

School districts are single function districts to provide public education for youth.

Special districts are single function units with elected or appointed governing boards and with taxing powers. The more than 700 special districts in North Dakota include districts for health services, fire protection, airports, water management, irrigation, soil conservation, parks and rural ambulance.

Financing Governments in North Dakota

Financing state and local public services in North Dakota involves an interrelationship between federal, state and local governments. About 46 percent of total expenditures was financed by state and local taxes in fiscal 1986, 21 percent by federal transfers and 33 percent by non-tax revenue (Figure 1).

Federal transfers directly to local governments have declined because general Federal Revenue Sharing to counties, cities and townships terminated September 30, 1986. In the last full year, these governments in North Dakota received about \$11.3 million which was equal to about 10 percent of their property taxes levied.

Total expenditures by state and local governments in fiscal 1986 were about \$1.9 billion. Major expenditures were for education, highways and roads, and health and welfare (Figure 1).

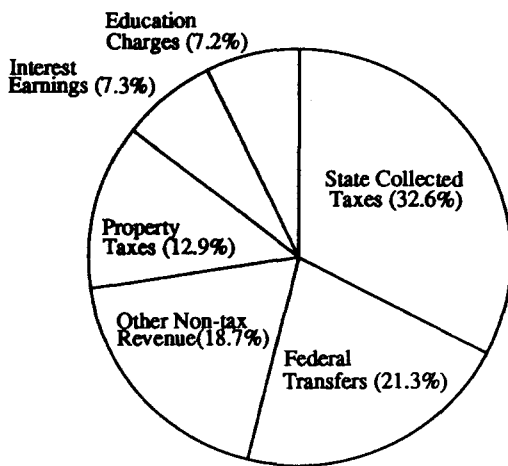
An overview of total revenue of state and local governments indicates the importance of federal and state transfers (Table 1). Note that net transfers

Table 1. Estimated General Revenue of State and Local Governments by Source, in North Dakota, Fiscal 1986

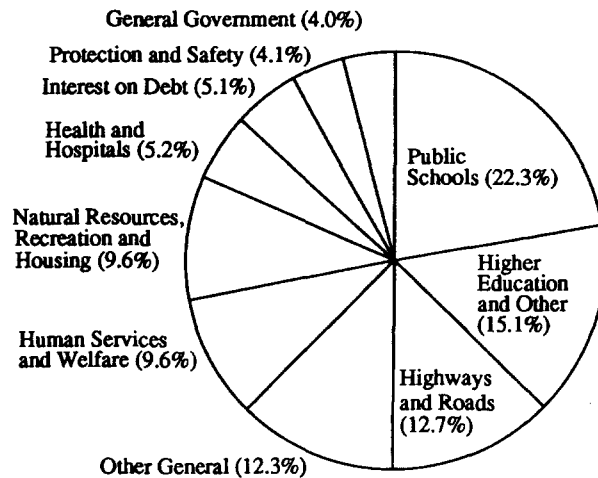
Source	State	Local	Total
	----- 1,000's -----		
Taxes			
Property	\$1,967	\$245,492	\$247,459
All other taxes	614,109	10,575	624,684
Total taxes	616,076	256,067	872,143
Charges & misc. general revenue	398,588	235,287	633,875
Total from own sources	1,014,664	491,354	1,506,018
From federal government	349,270	59,428	408,698
Total revenue	1,363,934	567,782	1,914,716
Net state to local transfers	-328,302	+ 328,302	
Total general revenue	\$1,035,632	\$879,084	\$1,914,716

Source: **Government Finances in 1985-86**, Bureau of the Census.

from state to local governments were over \$328 million, which was 37 percent of total local government revenue.



Sources of Revenue



Expenditures

Figure 1. Total Revenue and Expenditures of State and Local Governments in North Dakota, Fiscal Year 1986

The Tax System

North Dakota's tax system includes a "mix" of taxes to help pay for state and local public services. The state government uses a variety of taxes and thus has a broad tax base. Property tax is the primary tax levied and collected at the local level.

Nominal Values and Real Values

This publication on North Dakota's tax system includes data on tax revenue and government expenditures for the period from fiscal year 1978 to 1987. Trends for the 10 years are shown in **nominal dollars**—that is, in current values during the period—and in **real dollars**, which are nominal dollars adjusted for inflation to the base period, fiscal 1978. The Consumer Price Index (CPI) is used as the measure of inflation. The CPI is a national index based on urban consumer purchases, so it may not precisely reflect the effects of inflation on costs of public services in North Dakota. The CPI increased about 74 percent from 1978 to 1987.

The Tax Mix and Changes in Tax Revenues

Property taxes accounted for 34 percent of total state and local tax revenue, followed by sales taxes at 24 percent in fiscal 1987 (Figure 2). Tax revenue for each of the state and local taxes and the percent change from fiscal 1978 to 1987 are shown in Table 2. The percentage change in real dollars indicates a 5.2 percent increase in total state and local tax revenue. Sales and use tax revenue increased substantially, property taxes increased slightly, and individual income tax and highway user tax revenues declined. Energy taxes were nearly three times as high as 1987 as in 1978 even after the sharp drop in oil tax revenue in recent years. The 10-year trends for the major taxes (shown graphically in the descriptions of taxes in the following sections) indicate that annual collections fluctuated considerably for some of the taxes.

Personal Income

Personal income is one measure of the ability of taxpayers to pay taxes. This includes all salaries and wages, net proprietor's income from farm and non-farm businesses, dividends, personal interest income, rental income, and government and business transfer payments to individuals, including retirement income.

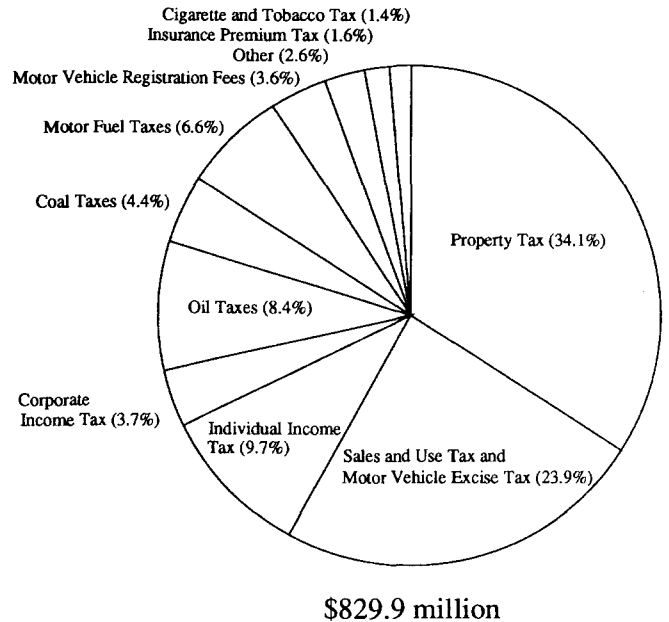


Figure 2. Total State and Local Taxes by Source, Fiscal Year 1987, North Dakota

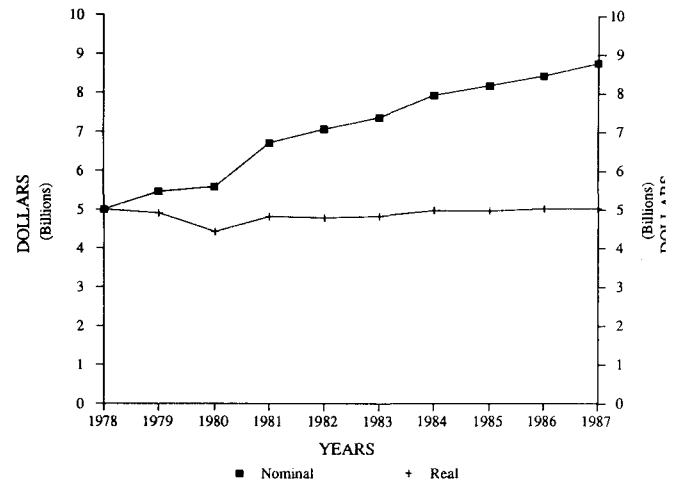


Figure 3. Total Personal Income, Fiscal Years, 1978-1987 North Dakota

Total personal income increased from \$5.0 billion in fiscal 1978 to \$8.8 billion in fiscal 1987 (Figure 3). Income in real dollars dropped in 1979 and 1980 and has increased slightly since then. Per capita income

increased from \$7,695 to \$13,061. In 1978, per capita income in North Dakota was 95 percent of the U.S. average, but gradually declined to 85 percent for 1986 and 1987.

Table 2. Total State and Local Taxes, North Dakota, Fiscal 1978 and 1987, and Percent Change from 1978 to 1987

	Tax Revenue		Percent change 1978 to 1987	
	FY 1978	FY 1987	Nominal dollars	Real dollars ^c
	-----thousands-----		-----Percent-----	
State sales & use tax	\$85,661	\$171,439	100.1	15.0
Motor vehicle excise tax	10,367	23,828	129.8	32.1
Motor vehicle use tax	1,468	3,287	123.9	28.6
State sales, use and excise taxes	97,496	198,554	103.7	17.0
City sales tax	—	9,571	—	—
Individual income tax	69,171	80,150	15.9	-33.4
Corporate income tax	13,191	30,871	134.0	34.5
Income taxes	82,362	111,021	34.8	22.5
Motor fuels taxes	35,861	55,023	53.4	-11.8
Motor vehicle registration fees	22,514	29,680	31.8	-23.8
Highway user's taxes	58,375	84,703	45.1	-16.6
Oil and gas production tax	10,730	34,357	220.2	84.0
Oil extraction tax	—	34,989	—	—
Coal severance tax	7,856	26,323	235.1	92.6
Coal conversion tax	2,005	9,888	393.2	183.4
Energy taxes	20,591	105,557	412.6	194.6
Insurance premium tax	7,453	13,042	75.0	0.6
Cigarette and tobacco taxes	8,692	11,257	29.5	-25.6
Liquor and beer taxes	6,198	5,607	-9.5	-48.0
Business privilege tax ^a	9,056	2,571	-71.6	-83.7
Gaming tax	132	1,591	1,105.3	592.7
Estate tax	2,897	1,932	-33.3	-61.7
Miscellaneous taxes	300	1,261	—	—
Total State Collected Taxes	\$293,562	\$546,667	86.2	7.0
Property taxes levied ^b	159,894	283,249	77.1	1.8
Total State and Local Taxes	\$453,456	\$829,916	83.0	5.2

Source: State Tax Department Reports.

^aBusiness privilege tax was discontinued in 1981; current report includes state's share of bank and savings and loan association taxes.

^bLevied in 1977 and 1986; collected in 1978 and 1987. Does not include special assessments.

^cReal dollars: Adjusted for inflation as measured by the Consumer Price Index.

Evaluating A Tax System

Evaluating a tax system is important to those developing tax policies to help determine the adequacy of the tax system and if taxpayers across the state are being treated as fairly as possible. There are no scientific methods to determine a "fair" tax, but there are established principles and criteria for evaluating taxes and a tax system.

A tax has two components: a tax base and a tax rate. Revenue raised is the tax base multiplied by the tax rate. Taxes are levied on three bases: wealth, consumption and income. Property tax is a tax on wealth, sales tax is an example of a consumption tax, and income taxes are taxes on income.

Evaluation Criteria

Under taxation principles, it is generally accepted that taxes should:

- have low administrative costs,
- provide reliable revenue,
- accomplish policy objectives without distorting other private sector decisions,
- be fair,
- be understandable to taxpayers,
- be easy for taxpayers to comply with, and
- minimize shifting of the tax burden.

Low administrative costs. Costs for administering and collecting the tax should not require much of the revenue collected. These costs, as a percent of revenue collected, generally range from 1.5 to 2.0 percent for sales taxes to less than 1.0 percent for income taxes.

Provide reliable revenue. Government units need reliable revenue sources to meet current commitments and plan for future obligations. Government should develop a reliable tax system or mix of taxes, and be less concerned that each individual tax provides stable revenue. Taxes vary as to their responsiveness to changes in general level of income. Income taxes generally are highly responsive to changes in income, especially with a progressive rate structure. Sales taxes are generally proportionally responsive to changes in income because of their flat rate. Property taxes are less responsive to income change.

Not distort private sector decisions. The imposition of a tax should affect taxpayer's economic decisions as little as possible. To the extent that taxes distort private sector decisions, inefficiencies in the private sector may result. Generally, social benefits from public services should be at least as great as the loss of welfare to society due to the tax.

Equity. Equity or fairness is difficult to measure. However, two principles of fairness apply to taxing for public services--benefits received and ability to pay.

Benefits received implies that those who use government services should pay the cost of providing them. Examples include gasoline tax for roads and streets, property tax for police and fire protection, and tuition for college. Most government services have a public benefit component. Education benefits the students and also benefits the society at large. Public parks with an admission fee are paid for partly by the users and partly by the public. The issue is how to determine user and public benefits to assign financial responsibility.

Ability to pay implies that citizens should share the tax burden according to their financial ability. A tax should treat equals equally. That is, people with the same ability to pay should pay an equal amount of tax. Likewise, unequals should be treated unequally.

A tax is **regressive** if persons with lower incomes pay a larger proportion of their incomes as taxes than persons with higher incomes. A tax is **progressive** if persons with higher incomes pay a larger proportion of their incomes as taxes than persons with lower incomes. A **proportional** tax is one under which everyone pays the same proportion of income as tax, or the same tax rate is used regardless of the base amount taxed.

Understandable. Taxpayers should understand (1) why they are taxed, (2) what is the tax base and tax rate, (3) how the tax revenue is used, and (4) the tax structure and how it affects them.

Easy to comply. Costs of compliance are the time and expenses a taxpayer incurs to comply with tax laws. Hiring accountants is a common cost of complying with income tax laws. Taxes should be simple, understandable and require little effort to comply.

Minimal shifting. Tax regulations specify who will pay the tax--this identifies the **statutory incidence**. However, under the private sector market system, taxes may be shifted to others. Taxes may be "passed on" to consumers, "passed back" to employees or stockholders, or "absorbed" by the business. The unit bearing the final cost of a tax identifies the **economic incidence**.

Evaluation of North Dakota's Major Taxes

Type of Tax	Positive Characteristics	Characteristics Subject to Criticism
Property tax	<ol style="list-style-type: none"> 1. Adaptable revenue source for local governments. 2. Suitable to local control. 3. Stable, dependable source of revenue. 4. Tax rates can be changed to match budget needs (subject to statutory limits). 5. Taxpayers know when and amount of tax due. 6. Benefits received principle applies for services such as roads, streets, and police and fire protection. 	<ol style="list-style-type: none"> 1. Complex to administer. 2. Subjective assessment of property values results in unequal treatment of taxpayers within and among jurisdictions. 3. Property base relative to population and public service varies among jurisdictions, so taxpayers in one government unit pay higher taxes than those in another unit for similar services. 4. The tax is somewhat regressive. Taxes are levied on value of property, with no adjustment for debt or net worth of owner. 5. Under benefits received principle, there is little direct relationship between property and social services such as public schools. 6. Taxes on some types of business property are shifted to customers or to stockholders. 7. May affect property location and business investment. 8. Delinquency rate may be high in poor economic times.
General sales tax	<ol style="list-style-type: none"> 1. Yields relatively high revenue at low rates. 2. Easy to collect and low administrative cost. 3. A broad based tax paid by all who buy; includes some who escape other taxes. 4. More stable than income tax, and responds to economic growth and inflation. 5. Understandable to taxpayers and less painful to pay. 6. Fairly neutral in effect on private sector. 	<ol style="list-style-type: none"> 1. A regressive tax; however, exemptions for food, drugs and services reduces its regressivity. 2. Different local or state rates can cause problems at borders. 3. Use by local governments creates avoidance problems. 4. Not a flexible tax; requires legislative action to change rates. 5. Problem on what type of sales to include or exclude. Hard to describe the tax base. 6. Little relationship between tax paid and benefits received.
Individual income tax	<ol style="list-style-type: none"> 1. Easy and low cost to administer if "federalized." 2. Tax revenue grows faster than income if rates are progressive. 3. Progressive tax; based on ability to pay. 4. Cannot be shifted to others. 5. Can be used for social reforms. 6. Low income persons don't pay. 	<ol style="list-style-type: none"> 1. Less stable revenue than sales or property taxes. 2. Strong administration required for equal treatment of equals. 3. Complicated to comply for many taxpayers. 4. Some effect on private sector decision making including investments and consumer spending.
Corporation income tax	<ol style="list-style-type: none"> 1. Progressive; based on ability to pay. 2. Easy to administer. 3. Revenue usually increases at a faster rate than income. 	<ol style="list-style-type: none"> 1. May affect business investment if tax rates are higher than in surrounding states. 2. Less stable than property and sales taxes. 3. Tax is shifted to customers, stockholders or employees.

Type of Tax	Positive Characteristics	Characteristics Subject to Criticism
Motor fuels tax	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Dependable and stable source of revenue. 3. Based on benefits received principle. Tax payments related to use of highways and roads. 4. Neutral in effect on private sector. 5. Understandable and easy to pay for taxpayer, but total annual taxes paid are usually unknown. 	<ol style="list-style-type: none"> 1. Revenue does not keep up with inflation except by increasing rates. 2. A regressive tax. 3. Commercial vehicle tax is shifted in part to customers. 4. Reduced tax on gasohol encourages production of higher cost fuel, but helps farm commodity market. 5. Earmarked revenue cannot be used for other services.
Licenses and fees	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Based on benefits received principle. 3. Stable source of revenue. 4. Can be used to regulate the service or activity. 5. Does not affect private sector decisions. 	<ol style="list-style-type: none"> 1. Usually need to increase rates for revenue to keep pace with inflation. 2. May be regressive. 3. Revenue usually earmarked for specific service. 4. Commercial fees may be shifted to consumer.
Oil and gas taxes	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Important source of revenue not paid directly by citizens. 3. Under present world oil price structure, taxes are not shifted to consumers. 	<ol style="list-style-type: none"> 1. Unstable and unpredictable revenue. 2. Difficult to determine level of tax that may be too high and discourage oil development and production in state.
Coal severance tax	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Dependable source of revenue. 3. Generally neutral in its effect on private sector decisions. 4. Industry receives benefits from state and local public services. 	<ol style="list-style-type: none"> 1. Limit on level of tax rate from competing sources of power generation. 2. May be some shifting of taxes to users of electricity.
Coal conversion tax	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Stable and dependable source of revenue. 3. Generally neutral in its effect on private sector decisions. 4. Industry receives benefits from state and local public services. 	<ol style="list-style-type: none"> 1. Tax tends to be shifted to users of electricity. 2. Tax shifted is regressive for household users.
Excise taxes on cigarettes liquor, etc.	<ol style="list-style-type: none"> 1. Easy to collect and administer. 2. Stable source of revenue. 3. May be used to discourage use of specific goods or services. 	<ol style="list-style-type: none"> 1. Discriminates by taxing those who purchase items taxed. 2. Usually regressive.

State Collected Taxes

The following sections include a brief description of the major taxes, tax rates, trends in tax revenues and comparisons with other states. The mix of state taxes is supplemented with federal revenue transfers and non-tax revenue to fund state services and provide state aid to local governments.

The major state collected taxes are the sales and use taxes, income taxes, oil and coal taxes and the highway user taxes, including motor fuel taxes and motor vehicle registration fees (Figure 4).

Sales and Use Taxes and Motor Vehicle Excise Tax

The **sales tax** is imposed on gross receipts of retailers. Exemptions include food for consumption

off the premises; prescription drugs, fertilizer, chemicals, feeds and seeds for agricultural purposes; electricity, water, and other items. The **use tax** applies to tangible personal property purchased outside the state for use within the state. The **motor vehicle excise tax** is imposed on the purchase price (sale price minus trade-in amount) of motor vehicles purchased for use on highways and streets in the state and required to be registered in the state.

Tax rates starting July 1, 1987, are 5½ percent of the sale price on all taxable items, except on farm machinery for which the rate is 3½ percent. The general tax rates were increased from 3 percent to 4 percent in 1984 and from 4 percent to 5 percent starting January 1, 1987. The rate of farm machinery was increased from 2 percent to 3 percent in 1984.

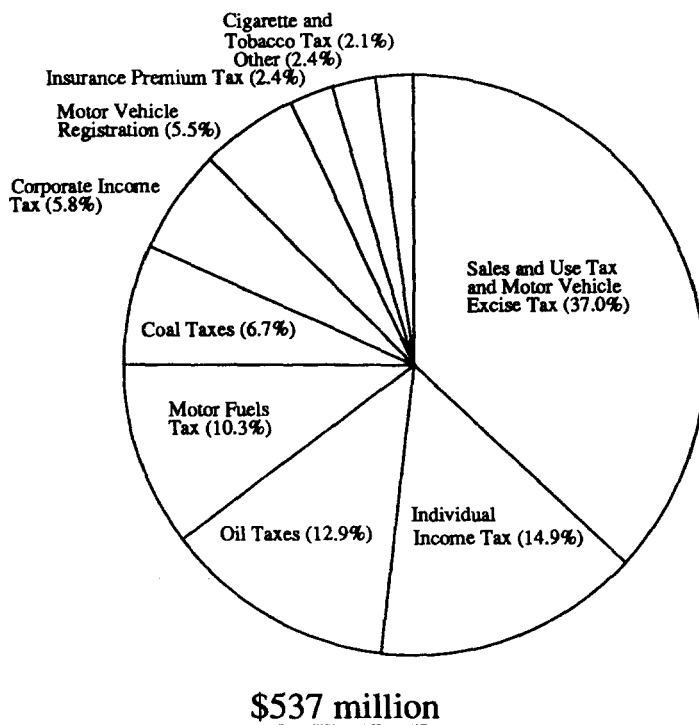


Figure 4. Total State Taxes By Source, Fiscal 1987, North Dakota

Tax Collections and Distribution

Collections of tax revenue from sales and use taxes and the motor vehicle excise tax are responsive to the level of economic activity in the state and to changes in tax rates (Figure 5). Collections in nominal dollars increased from 1978 to 1982 with no

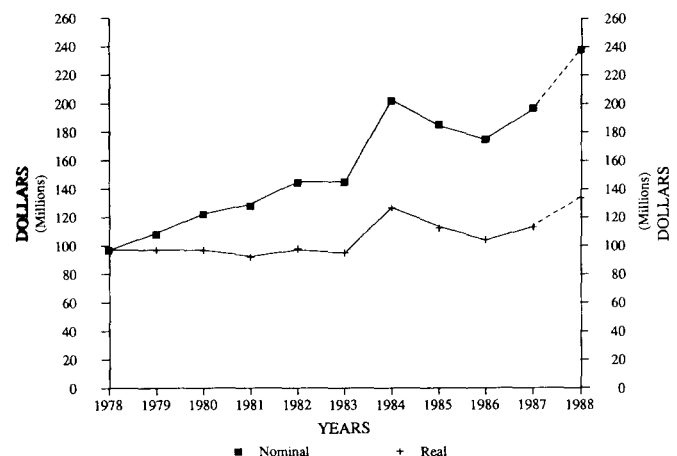


Figure 5. Sales and Use Tax and Motor Vehicle Excise Tax Collections, Fiscal Years, 1978-87, Projected 1988, North Dakota

change in rates reflecting growth in taxable sales. Annual taxable sales have declined since 1982, however collections went up in 1984 and again in 1987 with increases in tax rates. Collections in real dollars in fiscal 1987 were about 17 percent above the 1978 level.

All revenue from the state sales and use tax and the motor vehicle excise tax is credited to the state general fund. Fifty percent of the motor vehicle use tax is credited to the Highway Tax Distribution Fund and 50 percent to the state general fund.

Comparison With Other States

In comparisons with other states, both the tax rates and the tax bases need to be considered. North Dakota's general sales tax rate is higher than in some nearby states; however, the tax base is narrower. That is, fewer items are taxed. Comparison of rates and per capita taxes are shown in Table 3.

Table 3. Sales Tax Rates, Fiscal 1988, and Per Capita Taxes, Fiscal 1987, North Dakota and Nearby States

State	General state rate	Per capita		
		Amount	% of U.S.	Rank
Minnesota	6.0	\$346	105	17
U.S. average	—	329	100	—
Wyoming	3.0	308	94	23
Iowa	4.0	292	89	30
South Dakota ^a	4.0	290	88	31
North Dakota	5.5	288 ^b	81	32
Nebraska	4.0	245	74	38
Montana	No sales tax	—	—	—

^aTax rate was 5 percent for one year ending March 1988.

^bReflects 4 percent for six months and 5 percent for last six months of fiscal 1987.

Individual Income Tax

The North Dakota individual income tax is almost completely "federalized"; that is, the state definition of taxable income is similar to the federal definition. Taxpayers have the option of using either the short or long form. Over 90 percent of individuals who pay North Dakota income tax use the simplified short form. This involves multiplying their federal income tax liability by 10.5 percent under 1983 legislation and 14 percent for 1987 and subsequent years.

The long form using the tax table may be advantageous to some taxpayers with unique state adjustments. The rates using the tax table are 2.67 percent up to \$3,000 in taxable income, increasing to 12.0 percent for taxable income over \$50,000.

Tax Collections and Distribution

Individual income tax collections in North Dakota over the past 10 years have varied with changes in net income, changes in rates and use of the short form (Figure 6). The decline in 1979 was due largely to the reduction in rates. The drop in 1982 was due in part to the adaption of the simplified short form and the energy cost relief credit. Tax liability under the flat rate for the typical taxpayer is about 30 percent less than the tax due using the long form. The increase in 1984 was due to increasing rates and rising personal income.

Distribution: Individual income tax revenues are distributed to the state general fund.

Comparison With Other States

Every state with the individual income tax uses different minimum and maximum rates, income brackets, personal exemptions and special provisions. A comparison of the per capita tax burden indicates that in fiscal 1987, North Dakota residents paid less individual income taxes than residents of nearby states (Table 4).

Federal Tax Reform and Increase in the North Dakota Tax Rate

Under the Federal Tax Reform Act, it was estimated that North Dakotans paid 4 percent less federal individual income taxes in 1987 than in 1986; however, some paid more under the reform act. The increase in state tax rates means an increase in state individual income tax collections, which is partially offset by a decline in federal income taxes for the state as a whole.

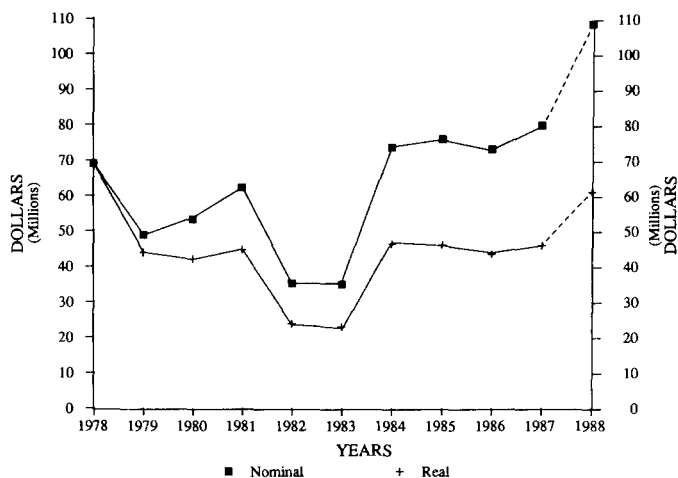


Figure 6. Net Individual Income Tax Collections, Fiscal Years, 1978-1987 and Projected 1988, North Dakota

Table 4. Comparison of State Individual Income Tax Collections, Per Capita, North Dakota and Nearby States, Fiscal 1987

State	Tax per capita	% of U.S.	Rank 43 states	Tax as % of personal income
Minnesota	\$544	174	4	3.5
Iowa	337	108	17	2.3
<i>U.S. average</i>	<i>313</i>	<i>100</i>		<i>2.0</i>
Montana	240	77	30	2.0
Nebraska	226	72	32	1.6
North Dakota ^a	119	38	40	0.9
South Dakota	No individual income tax			
Wyoming	No individual income tax			

^aReflects 10.5 percent of federal tax liability for last six months of 1986 and 14 percent of federal tax liability on withholding taxes for first six months of 1987.

Corporate Income Tax

North Dakota's corporation income tax is paid by every corporation engaged in business in the state or having sources of income in the state. About two-thirds of North Dakota's corporation income tax collections are paid by out-of-state corporations doing business in the state.

Current tax rates, based on 1983 legislation, are 3 percent on taxable income up to \$3,000, increasing to 10.5 percent on taxable income over \$50,000. 1987 legislation to be effective after December 31 provides that corporations will pay the higher of two calculations: use of the tax schedule or 5 percent of the North Dakota alternative minimum taxable income.

The Collections and Distribution

The corporate income tax accounted for 5.6 percent of total state collected taxes in fiscal 1987. However, collections have fluctuated considerably in recent years (Figure 7). Rates were increased in 1978, reduced slightly in 1981, then increased in 1983. The major increase in net collections in 1984 was due to higher rates and the change to collecting quarterly rather than annually. Lower net collections in 1986 and 1987 resulted from declines in business and the oil industry and to relatively large tax transfers to reserve fund accounts, which are reserves for corporation income tax refunds. Net collections in real dollars in fiscal 1987 were about 35 percent above the 1978 level.

Corporate income tax net collections are distributed to the state general fund.

Comparison With Other States

Every state has different rates and income brackets. Over half the states use a flat rate on taxable income. Compared to nearby states, North Dakota's

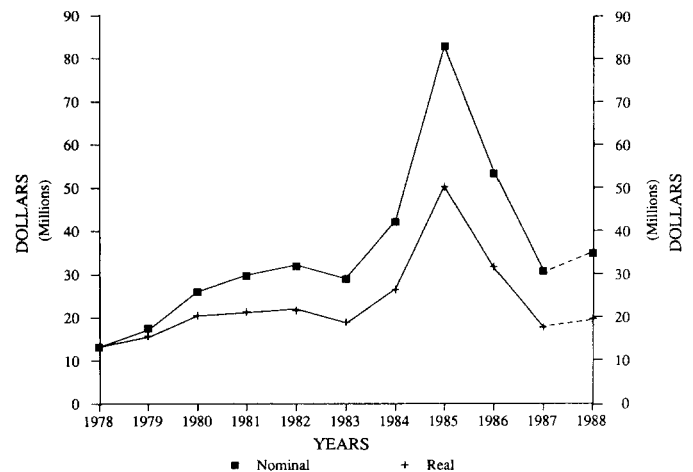


Figure 7. Net State Corporate Income Tax Collections, Fiscal Years 1978-1987 and Projected 1988, North Dakota

rates are moderate, lower than Minnesota's, but higher than Nebraska's. South Dakota and Wyoming have no corporation income tax.

Highway Use Taxes

The major state revenue sources for support of highways, roads and streets are fuel taxes and motor vehicle registration fees. These funds are earmarked for highway related uses at the state and local levels.

Motor Fuel Taxes

Motor fuel taxes include the motor vehicle fuel tax (gasoline tax), the special fuels tax, the special fuels excise tax and the aviation fuel tax.

Motor Vehicle Fuel Tax (Gasoline Tax)

1987 legislation increased this tax from 13 cents per gallon to 17 cents effective July 1, 1987. A 4-cent reduction is authorized for blended gasoline, commonly called gasohol.

Refunds of these taxes are granted to farmers using gasoline in non-licensed vehicles, industrial users for off-highway purposes, and to political subdivisions using fuel in publicly owned vehicles for maintenance purposes. One and one-half cents of the refund to farmers and industrial users is withheld. One cent per gallon is distributed to the Township Highway Aid Fund and one-half cent to promote finding new uses agricultural products through the North Dakota Agricultural Products Utilization Commission.

Special Fuels Tax

Special fuels include diesel, kerosene, heating oil, furnace oil, liquid petroleum gas, butane and propane.

Special fuels tax for highway purposes: Tax rates are the same as on gasoline, now 17 cents per gallon. Refunds are the same as for gasoline with one cent withheld for the Township Highway Aid Fund.

Special fuels excise tax: A 2 percent excise tax is imposed on sales of special fuels for non-highway purposes.

Aviation fuels tax: A tax rate of 8 cents per gallon is imposed on aviation fuels. The funds are allocated to the State Aeronautics Commission.

Fuel Tax Collections

Fuel tax collections in fiscal 1987 were about \$54 million (Figure 8), about 10 percent of total state tax revenue. Taxes by type of fuel were gasoline, 64.1 percent; special motor fuels, 23.4 percent; gasohol, 5.9 percent; and special fuels excise taxes, 3.6 percent.

Total annual motor fuel use increased slightly from 1978 to 1987; therefore, tax revenue increased marginally except when rates were increased. Taxes on gasoline and special fuels were increased from 8 cents per gallon to 13 cents in the 1983 legislative session.

Fuel Tax Distribution

Most of the fuel tax revenue is allocated to the Highway Distribution Fund except for minor amounts to the state general fund, the Alcohol Commission, the Aeronautics Commission and the Township Road Fund.

Sixty-three percent of the fuel revenue received by the Highway Distribution Fund is distributed to the

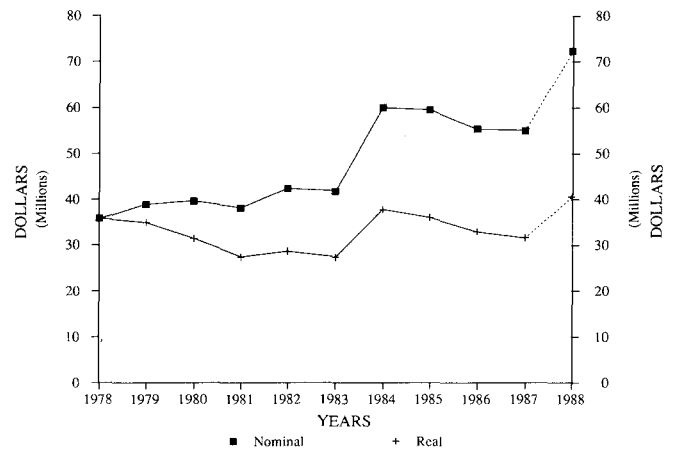


Figure 8. Motor Fuel Tax Collections, Fiscal Years 1978-87, Projected for 1988, North Dakota

State Highway Fund; the remaining 37 percent is allocated to counties based on number of motor vehicles registered. Of the county share, 73 percent is for county highway purposes and 27 percent is distributed to cities in the county based on population (Table 5).

Comparison With Nearby States

North Dakota's tax rates are mid-range when compared to nearby state (Table 6).

Table 5. Distribution of All Motor Fuel and Special Fuels Taxes for Highway and Road Purposes, North Dakota, Fiscal 1987

Department of level of government	Amount	Percent of total
State highway department	\$29,208,555	57.0
Counties	10,857,076	21.2
Cities	6,297,156	12.3
Townships	4,840,234	9.5
Total	\$51,203,021	100.0

Table 6. State Tax Rates on Motor Fuels, October 1, 1987 North Dakota and Nearby States

State	Gasoline	Diesel	L.P.G.	Gasohol
----- cents per gallon -----				
North Dakota	17	17	17	13
Iowa	16	18.5	16	15
Minnesota ^a	20	20	20	18
Montana	20	20	0	20
South Dakota	18	18	16	16
Wyoming	8	8	8	8
Nebraska	17.6	17.6	---	14.6

^aThe 1988 legislature increased motor fuel taxes to these rates from 17 cents.

Motor Vehicle Registration Fees

Motor vehicle registration provides a method of identification through the registration card and license plate. The fees provide about 32 percent of state collected revenue for highways and roads.

Registration fees vary with vehicle weight and age. For example, the fee from 1984 through 1987 for a car weighing less than 3,200 pounds and one to four years of age was \$44. For a car 9,000 pounds and over and one to four years of age, the fee was \$245. Fees for farm trucks from one to four years of age ranged from \$83 to \$391. Fees for commercial and non-commercial trucks one to five years of age ranged from \$110 to \$1,763. For 1988, the rates were all increased by \$5 plus a \$1 fee for 1988 and 1989 to pay for Centennial plates.

Registration Fee Collections and Distribution

Revenue collections from motor vehicle registration fees were relatively stable over the 10-year period, fiscal 1978 to 1987, except when fees were increased by the legislature effective for fiscal years 1982, 1984 and 1988 (Figure 9).

Total collections were \$29.7 million for fiscal 1987. About \$2.0 million was allocated by appropriation to the Motor Vehicle Department for administrative purposes. The remaining \$27.7 million was allocated by the same formula as the motor fuel taxes, 63 percent to the State Highway Department and 37 to counties and cities.

Summary of Distribution of Highway User Revenue

The distribution of state highway user revenue is summarized in Table 7.

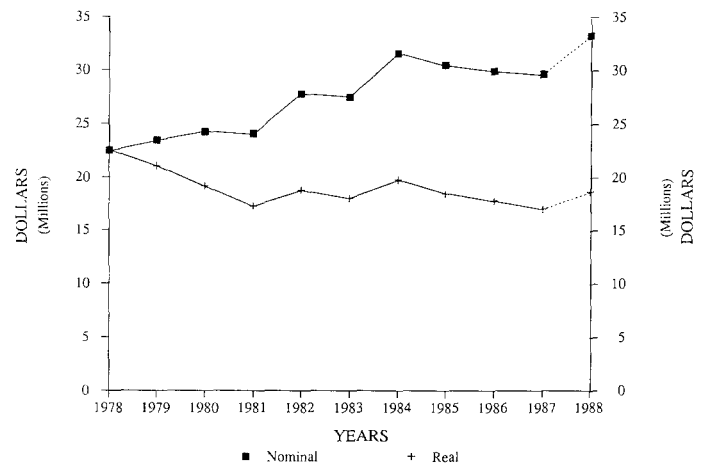


Figure 9. Total Motor Vehicle Registrations Fees, Fiscal Years 1978-1987 and Projected 1988, North Dakota

Oil and Gas Taxes

The Oil and Gas Production Tax was first enacted in 1953. The Oil Extraction Tax was included in the initiated measure passed by voters in 1980. It became effective January 1, 1981.

Oil and Gas Production Tax

This tax is imposed at a 5.0 percent rate on the gross value of oil and gas produced, with the exception of royalty interest on mineral holdings on Indian reservations and gas used for oil and gas production.

The current formula for distribution is that the first one-fifth is distributed to the state general fund, and the remaining four-fifths is split between the general fund and the county where produced (Table 8).

Table 7. Highway User Revenue Distribution, Fiscal 1987, North Dakota

Revenue source	Distribution				
	State Highway Department	Counties	Cities	Townships	Total
Fuels taxes	\$29,208,555	\$10,857,076	\$6,297,155	\$4,840,234	\$51,203,000
Motor vehicle registration fees	17,285,360	6,441,277	3,710,442	---	27,437,079
Motor vehicle use tax	935,504	347,808	201,615	---	1,484,920
Other road use revenue	5,026,249 ^a	---	---	---	---
Total	\$52,455,688	\$17,646,161	\$10,209,212	\$4,840,234	\$85,151,275
Percent of total	61.6%	20.7%	12.0%	5.7%	100.0%

^aIncludes \$3,150,598 in truck regulatory fees and \$1,875,651 in drivers' license fees.

The annual limit on revenue receipts per county is based on population (Table 9).

The revenue distributed to a county is earmarked for distribution as follows:

- 45 percent to the county general fund,
- 35 percent to the school districts in the county based on average daily attendance, and
- 20 percent to the incorporated cities based on population.

Table 8. Distribution of Four-fifths of Gross Production Tax From a County^a

4/5 of annual revenue from county	Distribution	
	County	State
Up to \$1 million	75%	25%
\$1 to \$2 million	50%	50%
Over \$2 million	25%	75%

^a1981 Legislation.

Table 9. Limit on Annual County Oil Revenue Receipts by Population^a

Population of county	Maximum distribution
Up to 3,000	\$3.9 million
3,000 to 6,000	4.1 million
6,000 or more	4.6 million

^a1983 Legislation.

Oil Extraction Tax

This tax is 6.5 percent of the gross value of crude oil extraction at the well. The 1987 legislature modified the law to encourage exploration and drilling. These include a 15-month exemption from the tax that was made for new wells completed after April 27, 1987. The tax rate was reduced to 4 percent for new wells and others meeting specified conditions. And the stripper well exemption was expanded so more wells qualify.

Revenue from the oil extraction tax is distributed 90 percent to the state general fund and 10 percent to the Southwest Water Pipeline Sinking Fund and to a Resource Trust Fund.

Revenue Collections From The Two Taxes

Oil and gas tax revenue in North Dakota rose from \$10.7 million in fiscal year 1978 to \$176.6 million in 1984 and dropped to \$69.3 million in 1987. The major variables were oil production, oil prices and the new 6.5 percent oil extraction tax which became effective in 1981. Oil production increased from 25 million barrels to 53 million barrels in 1984, then dropped to 41 million barrels by 1987. Price per barrel increased from \$12 in 1978 to \$35 in 1981, then dropped sharply in 1986 to \$15, and recovered some to \$18 in 1987 and declined again in 1988.

The trend in oil and gas tax collections is shown in Figure 10. In fiscal years 1982 and 1983, oil and gas taxes accounted for one-third of total state taxes, but had dropped to 13 percent by 1987. In real dollars, total revenue in 1987 was still four times the 1978 level.

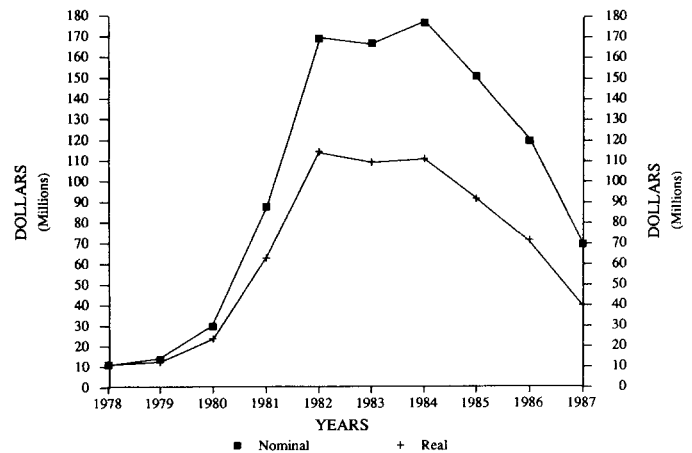


Figure 10. Oil and Gas Tax Collections, Fiscal Years 1978-1987, North Dakota

Distribution of Oil and Gas Tax Revenue

Total oil and gas tax revenue distributed in fiscal 1987 was \$75.5 million (Table 10). The county share is allocated among the county general fund, cities and school districts as previously described (Table 11).

Comparison With Other States

The 11.5 percent tax in North Dakota from the oil production tax and the oil extraction tax is relatively high; however, Alaska's rate is 15 percent, Montana's total state and local rate is 12.0 percent, Wyoming's total state and local rate is 12.5 percent,

Table 10. Distribution of Oil and Gas Tax Revenue, North Dakota, Fiscal 1987

	Amount (million)	Percent
State general fund	\$53.9	71.4
Counties	12.4	16.4
Trust Fund	9.2	12.2
Total	\$75.5	100.0

Table 11. Distribution of Oil and Gas Production Tax Revenue Among Counties, Fiscal Year, 1987

County	Amount distributed
Billings	\$2,238,735
Bottineau	811,370
Bowman	535,025
Burke	509,426
Divide	515,530
Dunn	1,163,370
Golden Valley	349,798
Hettinger	4,634
McHenry	12,700
McKenzie	3,125,454
Mountrail	169,830
Renville	583,420
Slope	47,527
Stark	606,070
Ward	14,499
Williams	1,689,300
Total	\$12,376,688

and Louisiana's rate is 12.5 percent. The state and local rate in Texas is 8 to 9 percent. Oklahoma's rate is 7.0 percent.

Coal Severance Tax

North Dakota's coal (lignite) has high water content and low heat value per ton which makes it non-competitive with higher value coal from Montana and Wyoming for transport to distant generating plants. Therefore, our coal is largely dependent on the "mine-mouth" market which is the coal conversion plants near the mines.

The **tax rate**, effective July 1, 1987, is 75 cents per ton with no escalator clause, plus 2 cents per ton for lignite research. **Exemptions** from the tax include coal used for heating buildings, coal used by the state or political subdivisions and coal used in agricultural processing and sugar refining. The previous basic rate had been 85 cents per ton set in 1979 with an escalator clause. The rate had reached \$1.04 per ton by 1987.

Coal Tax Revenue

Coal tonnage subject to the tax increased from 12 million tons in 1978 to 25 million tons in 1987. The tax rate increased from 64 cents per ton in 1978 to \$1.04 in 1987.

Total coal tax revenue increased from \$7.9 million in fiscal 1978 to \$27.8 million in 1987 (Figure 11). Revenue in real dollars doubled during that period.

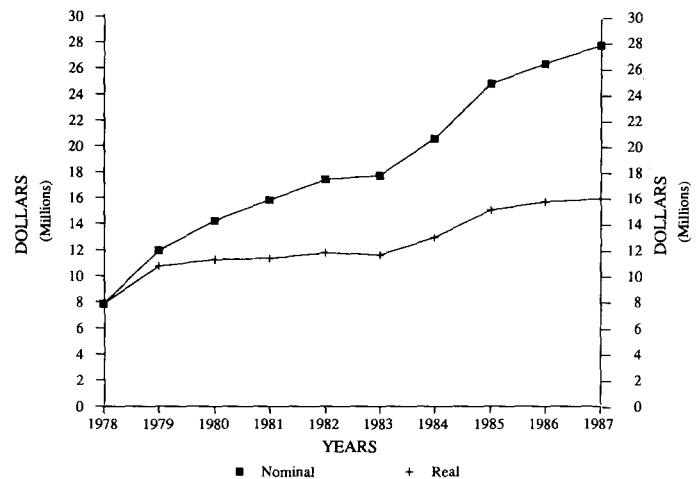


Figure 11. Coal Severance Tax Collections, Fiscal Years 1978-1987, North Dakota

Revenue Distribution

The formula for distribution has changed a number of times, but effective July 1, 1987, the tax revenue is distributed as follows:

- 50 percent to the state general fund (this had been 30 percent).
- 35 percent to coal producing counties (this had been 20 percent). Distribution within the county is 40 percent to the county general fund, 30 percent to cities, and 30 percent to school districts. A nonproducing county within 15 miles of an active mine is entitled to share in tax revenue from the mine.
- 15 percent to the Coal Development Trust Fund, used for loans to local jurisdictions impacted by coal development.

Coal Conversion Tax

The coal conversion facilities privilege tax is a tax on production of electricity or other products from coal conversion plants. The tax is in lieu of property taxes on the plant, but property taxes are imposed on the land.

Taxes on Electrical Generating Plants

Two separate tax levies of .25 mill per kilowatt hour are imposed on electrical generating plants. Effective July 1, 1987, the first .25 mill is imposed on 60 percent of installed capacity. The second .25 mill continues to be levied on actual production.

Revenue from the first .25 mill is distributed 65 percent to the state general fund and 35 percent to the county in which the plant is located. The county share is apportioned 40 percent to the county general fund, 30 percent to the cities based on population and 30 percent to school districts based on attendance. Revenue from the second .25 mill is placed in the state general fund.

Taxes on Other Coal Conversion Plants

The tax on a coal gasification plant is 2.5 percent of gross receipts or 7 cents on each 1,000 cubic feet of synthetic natural gas produced for sale, but not including any amount in excess of 110 million cubic feet per day. 1987 legislation provided that coal gasification plants would be exempt from 65 percent of the tax for a period of five years.

Coal Conversion Tax Revenue

Total coal conversion tax revenue increased from \$1.9 million in fiscal 1978 to \$10.4 million in 1987 (Figure 12). Revenue in real dollars in 1987 was three times the 1978 level.

Distribution of the \$10.5 million in fiscal 1987 was \$8.6 million to the state general fund and \$1.8 million to counties. In fiscal 1986, Mercer County received 63 percent of the allocation to counties, McLean County received 22 percent and Oliver County received 15 percent.

Other State Taxes

Our state government imposes several other taxes which provide comparatively minor, but steady sources of revenue. These taxes are briefly described below.

Cigarette and Tobacco Products Taxes

The state **cigarette tax** was increased by 50 percent effective July 1, 1987, from 18 cents to 27 cents on packages of 20.

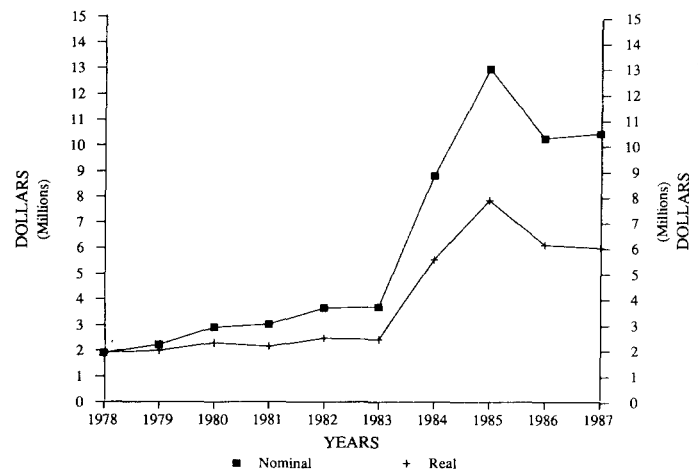


Figure 12. Coal Conversion Tax Collections, Fiscal Years 1978-1987, North Dakota

The **tobacco tax** is imposed on all tobacco products other than cigarettes. 1987 legislation increased the excise tax from 11 percent to 20 percent of the wholesale price.

Revenue from cigarette and tobacco taxes declined from a peak of \$13 million in fiscal 1984 to \$11.3 million in 1987, but was projected to increase to \$16 million in fiscal 1988 in response to the increase in tax rates.

Three cents per package of revenue from cigarette taxes is distributed to cities and 24 cents to the state general fund. The tobacco tax goes to the state general fund.

Insurance Premium Tax

Current tax on an insurance company is a premium tax on the gross amount of annual premiums, membership fees and policy fees received from North Dakota policy holders. Tax rates under 1987 legislation are 2.0 percent for life insurance and 1.25 percent on accident, sickness and all other insurance.

The tax is administered by the state insurance commissioner. Revenue is deposited in the state general fund.

Tax Revenue was \$7.5 million in fiscal 1978 and it increased to \$13.0 million by 1987, which just kept pace with inflation, thus providing no real increase in revenue.

Liquor and Beer Taxes

Liquor and beer taxes are imposed on all alcoholic beverage wholesalers doing business in the state. The state treasurer administers the tax with revenue deposited in the state general fund.

The tax rates are per gallon and vary by type of beverage. Rates range from 8 cents per gallon for beer in bulk containers to \$4.05 per gallon for alcohol. These rates have been about the same since 1967. Annual tax revenue has declined slightly from \$6.6 million in fiscal 1981 to \$5.6 million in 1987.

Estate Tax

Estate tax is imposed on the value of an estate transferred at death. North Dakota's estate tax is "federalized" (based on federal estate tax law as of December 31, 1984). The estate tax is equivalent to the credit for state death taxes allowed on the federal estate tax return; therefore, an estate pays no more in total estate taxes than the estate's federal tax liability.

Annual tax collections have been between \$2.0 and \$3.0 million in recent years. The estate tax revenue is distributed by the state to counties and cities in which the property of the estate is located.

Gaming Tax

Games of chance including bingo, pull tabs, punch boards and sports pools were legalized in 1977. "Twenty-one" (blackjack) was legalized in 1981. The tax is levied on the adjusted gross proceeds from games of chance conducted by various licensed public spirited organizations. The tax is 5 percent on the first \$600,000 of adjusted gross proceeds and 20 percent on proceeds over \$600,000. The revenue is shared between cities or counties and the state general fund. City or county revenue must be used for enforcement of gaming laws. Total gaming tax revenue collected in fiscal 1987 was \$1.6 million.

State Collected Licenses and Fees

North Dakota state government agencies collect numerous licenses and fees for specific privileges, purposes and services. In fiscal 1987, total collections, as reported by the U.S. Department of Commerce, were \$60.2 million, of which \$29.1 million was motor vehicle registration fees (included in this report as part of highway tax revenue). Another \$21 million was reported under the category of business and occupation licenses and fees. Use of licenses and fees for government revenue is based on the benefits received principle: those who use the service pay directly for the privilege or service.

State Taxes--An Overview

State taxes and licenses accounted for about 45 percent of the \$1.38 billion in total revenue received by state government and its state institutions in fiscal 1986. About 25 percent was from federal transfers and the remaining 30 percent from other non-tax sources.

Tax Trends

The sharp increase in total state tax collections from 1983 to 1985 reflected the rise in oil tax collections along with increased sales and income tax collections (Figure 13). The decline since 1985 is due largely to the decline in oil taxes with some decline in sales and corporation income tax collections. Revenue in real dollars in fiscal 1987 was about 10 percent above the 1978 level.

Also shown in Figure 13 is total state tax collections indexed to total personal income in the state. In the early 1980's, tax collections, including oil taxes, were increasing faster than personal income. Since 1984, real tax revenue declined relative to personal income as income continued to rise, but real tax revenue declined.

The trend in state tax collections, excluding energy taxes is shown in Figure 14. Energy taxes in-

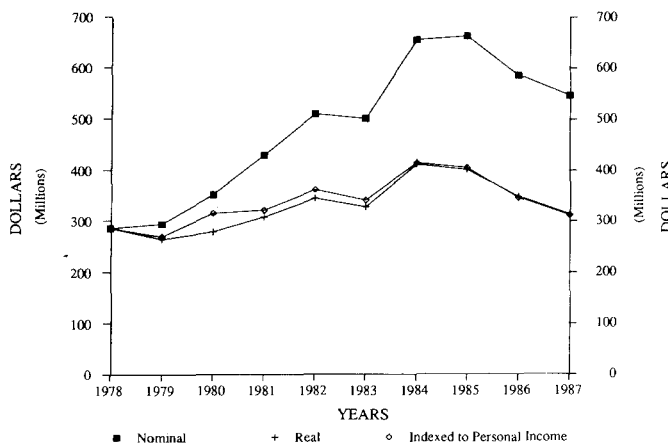


Figure 13. Total State Collected Taxes, Fiscal Years 1978-1987, North Dakota, Nominal and Real and Indexed to Personal Income

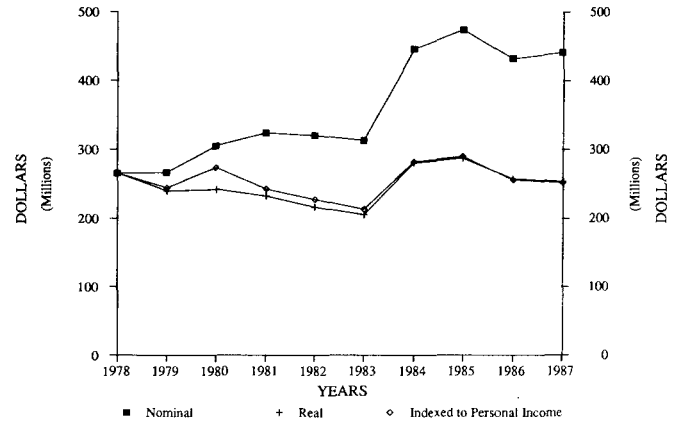
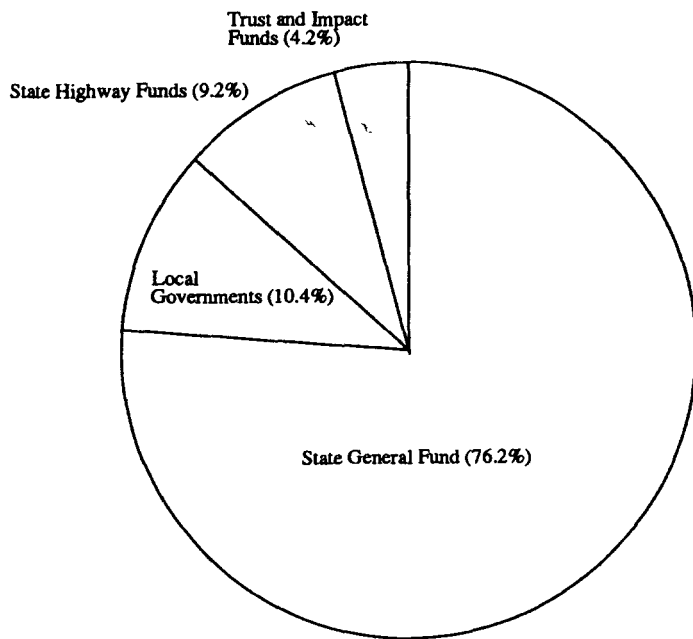


Figure 14. Total State Collected Taxes Less Energy Taxes, Fiscal Years 1978-1987, North Dakota, Nominal and Real and Indexed to Personal Income

clude oil and gas taxes, coal severance taxes and coal conversion taxes. These are taxes paid by the energy industry and not by the tax paying public as are most other taxes. The decline since 1985 has been more moderate than for total tax collections including energy taxes. From 1978 to 1983, personal income was rising faster than taxes were increasing; however, taxes increased relative to personal income from 1983 to 1985 and decreased from 1985 to 1987. Real tax collections in fiscal 1987 were four percent below the 1978 level.

Distribution of Total State Tax Revenue

Total state tax revenue by source was shown in Figure 4. Distribution of total state tax revenue (Figure 4), \$537 million in fiscal 1987, is shown in Figure 15. Over three-fourths went to the state general fund. The 10.4 percent, or \$55.8 million, going to local governments included \$31.1 million in county, city and township shares of highway taxes, \$19.8 million in energy tax distributions, and \$4.9 million from minor taxes--cigarette, estate and gaming taxes.



\$537 million

Figure 15. Initial Distribution of Total State Tax Revenue, Fiscal 1987, North Dakota

General Fund Revenue

The state general fund received about \$409 million in fiscal 1987 as its share of total state collected taxes. General fund revenue is available for the legislature to allocate among the many state services, help with major support for public schools, and provide some funds to local governments.

The trend in tax collections for the general fund from the major taxes indicates sharp fluctuations, particularly for oil taxes (Figure 16). Sharp increases are projected for fiscal 1988 for sales and use taxes and individual income taxes in response to increases in tax rates.

The trend for total general fund tax revenue is shown in Figure 17. The fluctuations reflect changes in oil taxes, sales and use taxes and income taxes.

The proportionate contribution of the various state taxes and non-tax revenue to total general fund revenues for fiscal 1987 are shown in Figure 18.

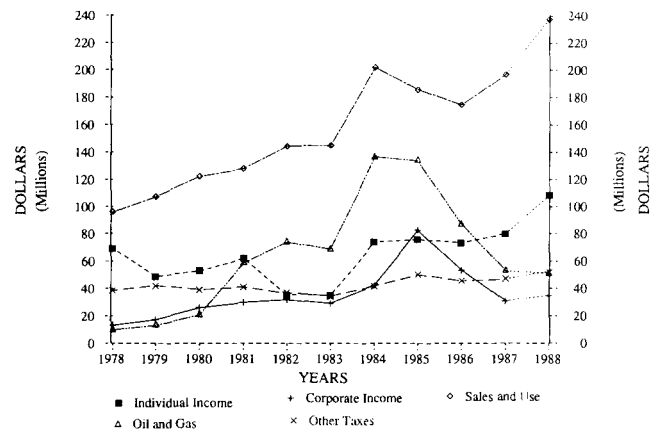


Figure 16. General Fund Taxes by Major Tax, Fiscal Years 1978-1987 and Projected 1988, North Dakota

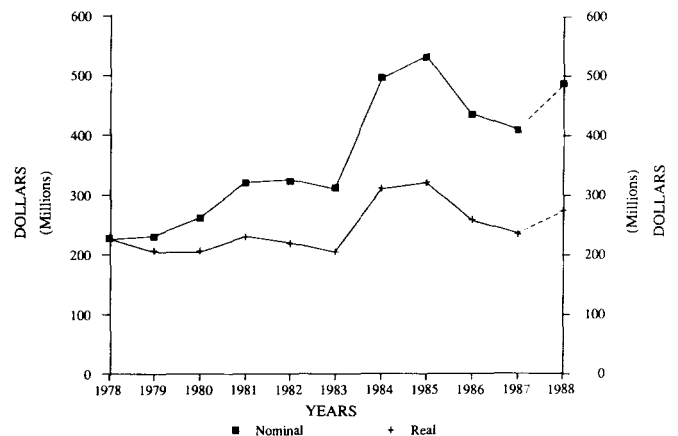


Figure 17. Total General Fund Tax Revenue, Fiscal Years 1978-1987 and Projected 1988, North Dakota

Comparison With Other States

North Dakota's total state tax responsibility per capita is moderate compared to nearby states and to the national average (Table 12). Total state taxes excluding oil and coal severance taxes were about 68 percent of U.S. average.

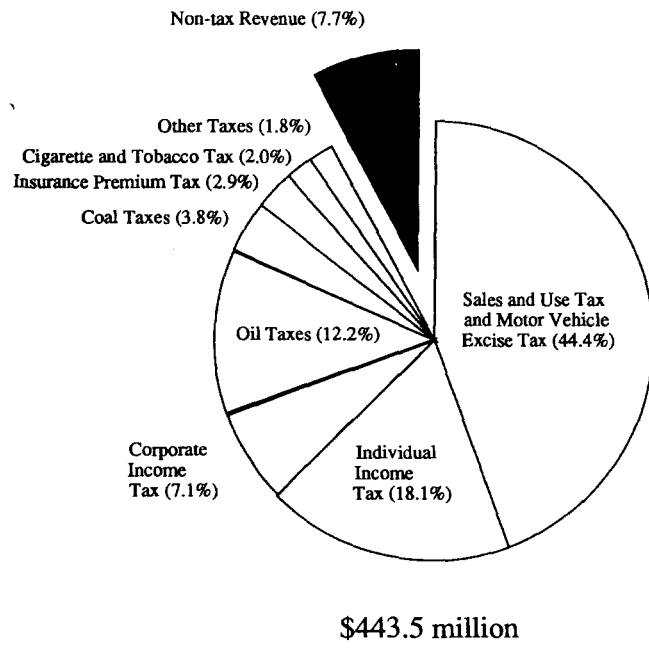


Figure 18. State General Fund Revenue by Source, Fiscal Year 1987, North Dakota

Table 12. State Taxes Per Capita, Total and Less Severance Taxes, North Dakota and Nearby States, Fiscal 1987.

State	Per Capita			
	All state taxes ^a	Percent of U.S. average	State taxes less severance taxes ^b	Percent of U.S. average
Minnesota	\$1,292	131	\$1,290	133
Wyoming	1,198	121	686	71
<i>U.S. Average</i>	<i>986</i>	<i>100</i>	<i>970</i>	<i>100</i>
Iowa	906	92	906	93
North Dakota	798	81	657	68
Nebraska	718	73	716	74
Montana	684	69	560	58
South Dakota	565	57	557	57

Source: **State Government Tax Collections in 1987**. Bureau of the Census.

^aExcluding licenses, permits and fees, except motor vehicle registrations are included.

^bSeverance taxes include taxes on oil and coal production.

Local Government Revenue

Local governments depend primarily on property taxes as their local tax; however, state and federal transfers and non-tax revenue provide the major share of revenue (Figure 19). State collected local taxes include the city sales tax (in Grand Forks, Minot and Bismarck), the city lodging tax, and estate taxes.

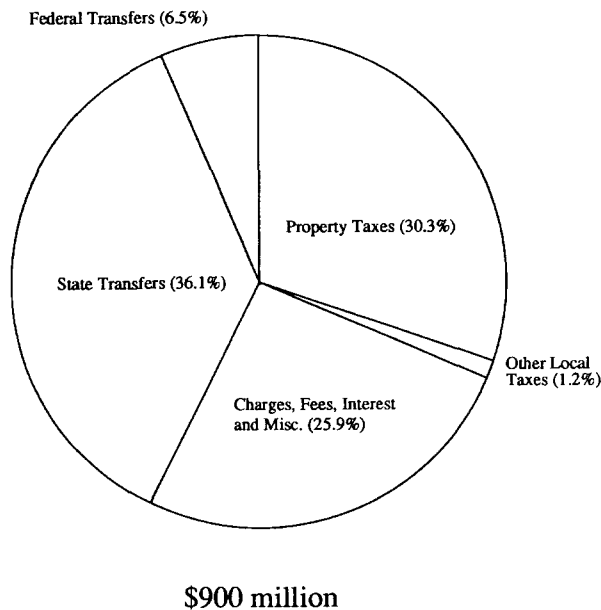


Figure 19. Sources of Local Government Revenue in North Dakota, Fiscal Year 1986

Source: *Government Finances in 1985-86*, Bureau of the Census

Property Taxes

The property tax continues as the primary source of financial independence for local governments, even though dependence on this tax has declined over the years. In 1965, property taxes accounted for 55 percent of total state and local taxes in North Dakota, compared to 34 percent in 1986.

The Tax Base

North Dakota's property tax base is primarily real estate, public utilities and railroads. Real estate in-

cludes farmland, residential property and commercial property. Special taxes are levied in lieu of property taxes on rural electric cooperatives, telephone cooperatives, banks, savings and loan associations, and mobile homes.

Taxable value: Annual budgets of local governments in which properties are located determine the total revenue needed and thus the taxes levied. The taxable value of each property determines its share of total taxes levied.

The starting base for all classes of property, except farmland, is the **market value** as the "true and full value" for assessment purposes. The true and full value of farmland is its **agricultural productivity value** determined by statutory formula.

Assessed value is 50 percent of true and full value.

Taxable value is 10 percent of the assessed value for commercial and agricultural property and 9 percent for residential property. Thus taxable values are 5 percent of market value for commercial property, 5 percent of productivity value for agricultural property, and 4.5 percent of market value for residential property. The mill rate times the taxable value determines the taxes due on a parcel of property.

Administration of the Property Tax

Under state law, the county government is responsible for determining and collecting the property tax and distributing the revenue to the county, cities, townships, school districts, and other taxing districts which levied the taxes.

The North Dakota **property tax system** involves the following procedures within a county:

- The assessment process determines the taxable value of each parcel of taxable property within a taxing unit. The sum of all taxable values comprises the tax base of the local government or taxing unit.
- Each government or taxing district prepares an annual budget and submits the budget to the county auditor.

- The county auditor divides the budget (subject to statutory limits) by the taxable value to determine the mill rate needed to raise the revenue for the budget. A mill is a 1/10th of a cent, or calculated as 1/10th of one percent (.001).
- The property tax due on a piece of property is the taxable value times the mill rate.
- The county auditor determines the taxes due on a parcel of property for each government or taxing district in which the property is located. The property owner receives a consolidated statement for total property taxes.
- The tax is due on January 1 each year following the year when assessed and levied. A 5 percent discount is allowed if paid before February 15. There is no penalty until after March 1.

Computing the taxes due starting from true and full value is illustrated in the example for a city homeowner.

True and full value	\$100,000
	x 50%
Assessed Value	50,000
(for residential property)	x 9% ^a
Taxable value	4,500
Consolidated mill levy	x 280 mills
Taxes due	\$1,260

^aFor all other classes of property, the taxable value is 10 percent of assessed value.

The true and full value for **assessment** of commercial, residential and agricultural property is determined by local assessors. Each county has a director of tax equalization for coordinating the assessment process.

Equalization involves adjusting assessments toward a consistent relationship among properties within a taxing district, among districts in a county, and among counties. Equalization boards at the respective levels include the township supervisors, city board members, county commissioners and the state board of equalization.

Assessment and Equalization of Farmland

True and full value of farmland is its agricultural productivity value as determined by statutory formula under 1981 legislation. County average farmland values are computed annually by the Department of Agricultural Economics at North Dakota State University and submitted to the State Tax Commissioner.

Base for value. The county average true and full value of farmland per acre is based on the capitalized landowners' share of gross farm returns, calculated from a six-year running average, dropping off the

high and low years. The landowners' share, by statutory formula, is 30 percent of gross returns from cropland, 20 percent of gross returns from sugarbeet and potato production (because of higher production costs per dollar of returns) and 25 percent of gross returns from grazing land as measured by converting grassland returns to beef cow-calf enterprise returns.

The formula for land values is value of farmland = landowners' returns ÷ capitalization rate (interest rate). The capitalization rate is now the 12-year running average of the Federal Land Bank mortgage rate of interest in North Dakota excluding the high and low years. These capitalization rates have increased from 7.8 percent in 1984 to 10.31 percent in 1988. A higher capitalization rate means lower farmland assessed values.

Trend in Values. The trend in the nominal statewide average true and full productivity values of farmland per acre is shown in Figure 20. The productivity formula was first used in 1981. Values have declined since 1984 reflecting the rising capitalization rates and no growth in gross farm returns.

Assessment Within Counties. The county average true and full values shown in Figure 21 were assigned to each county for 1987. The County Director of Tax Equalization uses data available on soil types and other pertinent information to assign an average value per acre for each township or taxing district. The average value of all townships should equal the assigned county average. The township assessor or local assessor uses the best information available on soils and other factors to assign a value to each parcel of land. These values within the township will average to the assigned township value.

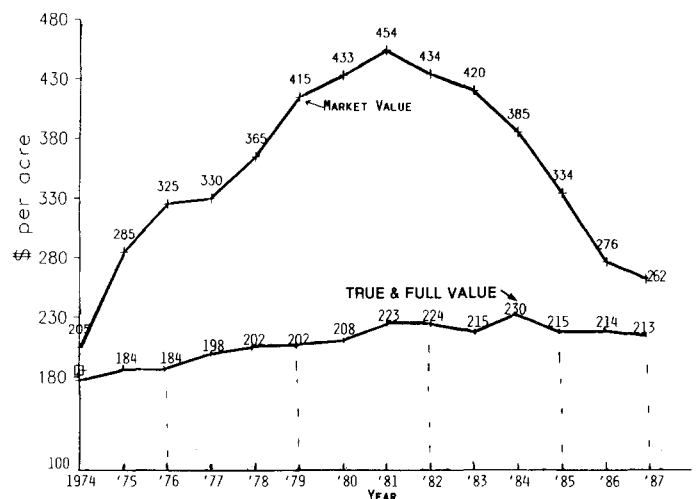


Figure 20. Market Values and True and Full Values of Farmland Per Acre, North Dakota, 1974-1987

Source: 1987 Property Tax Statistical Report, State Tax Department

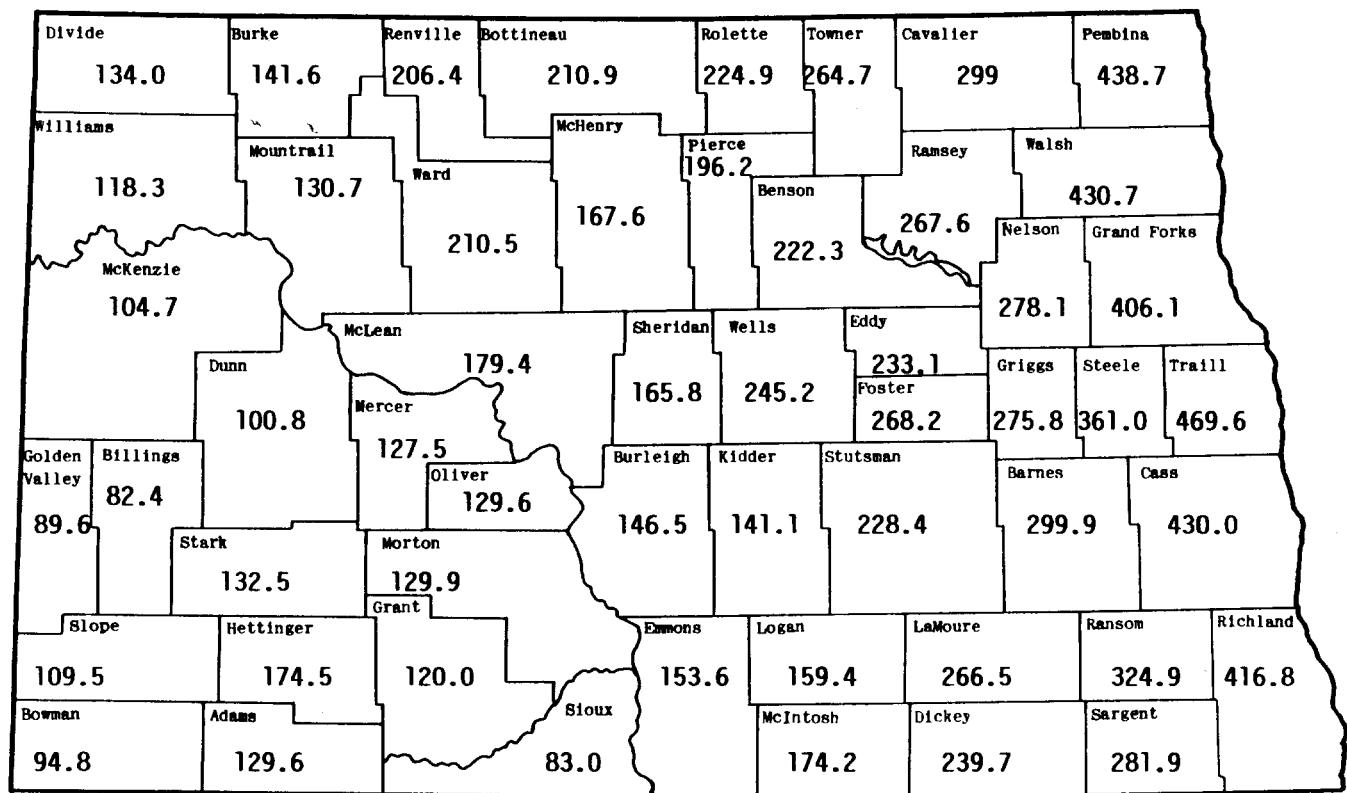


Figure 21. Average True and Full Value Per Acre of Farmland Per County As Equalized by Board of Equalization, 1987
 Source: 1987 Property Tax Statistical Report, State Tax Department

Centrally Assessed Property Taxes

The State Board of Equalization is responsible for property tax assessments on railroads, investor owned public utilities and airlines. The property is taxed at the mill rates of the taxing districts in which the property is located. The tax is collected by the county and distributed to the taxing districts. Airlines are taxed based on the average of total mill levies in the cities served. The state treasurer collects the tax and distributes it to the cities in which the airlines operate. The revenue is used for airport purposes.

Special Taxes in Lieu of Property Taxes

Local governments receive revenue from several types of business in lieu of property taxes. These include Rural Electric Cooperatives; telephone cooperatives; banks, trust companies, and savings and loan associations; and mobile homes. The latter are now taxed similar to residential property.

Property Tax Exemptions

Some of the major tax exemptions are:

- Exemptions for property owned by governmental units.
- Exemptions for farm residences and farm structures used for farm operations, subject to specific requirements.
- Up to five-year exemptions for new businesses, not including large projects with costs or sales exceeding \$150 million or more than 1,000 employees.
- Exemptions for selected types of buildings or remodeling.
- Exemptions for blind, disabled or those with limited income.

Statutory Limits on Annual Tax Increases

Prior to 1981, state statutes limited the amounts of taxes that local governments could raise by mill levy limits. Since 1981, a local government unit is limited to a percentage increase in total dollars levied over

the previous year, plus or minus gains or losses in taxable property. The specific limits do not apply to school districts, home rule cities, levies on bonded indebtedness or the state one mill levy. School districts have more flexibility under several options.

The percentage limits on annual property tax increases by local government units since 1981 were 7 percent for 1981/82; 4 percent for 1983/84; 3 percent for 1985/86; 5 percent for 1987/88.

Property Tax Levies and Distribution

Property tax levies have increased steadily over the past 10 years, primarily in response to higher costs due to inflation and to citizens' interest in improved public services (Figure 22). The trend indicates that property taxes declined in real dollars during years of rapid inflation. Since 1981, property taxes in real dollars have slowly increased. Total property tax levies of \$283.2 million in 1986 in real dollars were slightly below the 1977 level.

Taxes Levied by Class of Property. Classes of property include agricultural land, residential property, railroads and public utilities. The latter includes telephone property, telegraph property, electric and gas heating utility property and pipeline property. The percentages of total taxes levied by class of property and the percent increase from 1977 to 1986 are shown in Table 13.

From 1977 to 1987, taxes on residential and commercial property increased an average of 105.7 percent in nominal dollars and 14.3 percent in real dollars, reflecting the increase in taxable property and the rising taxes levied by cities and counties.

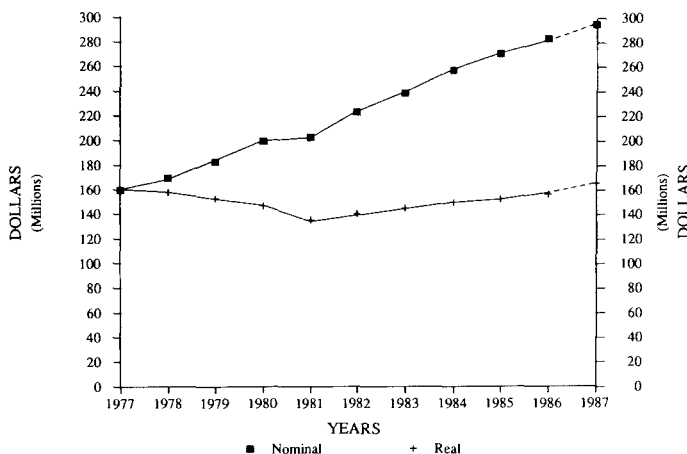


Figure 22. Total Property Taxes Levied by All Taxing Units, Calendar Years 1977-1986 and Projected 1987, North Dakota

Table 13. Percent of Total Taxes Levied by Class of Property and Percent Increase, 1977 to 1986, North Dakota

Class of property	Percent of total taxes levied		% increase, 1977-1986	
	1977	1986	Nominal dollars	Real dollars
Residential		33.6		
Commercial		24.5		
(Total) ^a	49.5	58.1	+ 105.7	+ 14.3
Farmland	41.8	34.7	+ 45.3	-19.3
RR & public utilities	8.7	7.2	+ 45.8	-19.0
Total	100.0	100.0	+ 75.2	- 2.6

^a1977 tax reports did not record residential and commercial property separately.

Farmland taxes increased only 45.3 percent in nominal dollars and declined 19.3 percent in real dollars due to no city taxes on farmland and the small increase in taxable value of farmland. Total property taxes in real dollars declined by 2.6 percent over the 10-year period. This does not include special taxes on banks, electrical cooperatives, etc.

Property tax distribution. Property taxes levied by government units statewide for 1977, 1981 and 1986 are shown in Table 14. School districts' share of total property taxes declined from 1977 to 1981, and county and city shares increased. The percentage distribution in 1986 was about the same as in 1981. For the 10-year period, in real dollars, taxes levied by counties and cities increased, but decreased for school districts and townships. The percent of total property taxes levied by units of government in 1986 is illustrated in Figure 23.

Property tax differentials. Property taxes are assessed and equalized under a statewide system so that taxable values of similar properties are generally similar among counties or other jurisdictions. However, the tax levies on similar valued property can be greatly different from one jurisdiction to another. For example, the county levies for county government in 1986 varied from 23 mills to 94 mills. Reasons for differences include: (1) the total taxable value in a government unit can vary widely relative to population and need for services; (2) local governments vary in the number and level of services provided; (3) counties or other units receiving oil and/or coal revenue may be getting more revenue than needed to cover the additional government costs of the impact of development.

Table 14. Property Taxes Levied by Government Unit, Percent of Total Property Taxes and Percent Increase, 1977 to 1986, North Dakota

Government unit	1977		1981		1986		% increase, 1977-1986	
	Taxes levied	% of total	Taxes levied	% of total	Taxes levied	% of total	Nominal dollars	Real dollars
School districts	\$ 91,910,405	57.5	\$104,459,722	51.5	\$145,094,628	51.2	57.9	-18.3
Counties	33,810,989	21.1	49,596,993	24.4	70,052,110	24.7	107.2	+ 14.9
Cities ^a	23,810,290	14.9	35,884,467	17.7	51,942,103	18.3	118.2	+ 21.0
Townships	6,671,475	4.2	8,289,362	4.1	9,383,936	3.3	40.7	-21.9
Miscellaneous districts ^b	2,891,637	1.8	3,666,193	1.8	5,749,294	2.1	99.8	+ 10.5
State (medical center)	799,495	0.5	952,566	0.5	1,027,273	0.4	28.5	-28.6
Total	\$159,894,291	100.0	\$202,849,303	100.0	\$283,249,344	100.0	77.1	- 1.6

Source: Annual **Property Tax Statistical Reports**, State Tax Department.

^aCity taxes do not include special assessments.

^bIncludes Garrison Conserving District, water management districts, rural fire protection districts, soil conservation districts and other special districts.

Special Assessments

Cities levy special assessments for physical improvements that are of direct benefit to the property being assessed. These include local streets, sidewalks, sewer, water mains or other improvements. Some rural districts may also use special assessments. Special assessments increased by about one-third in real dollars from 1977 to 1986 (Table 15).

Comparison With Nearby States

Property tax systems vary from state to state so general tax rate comparisons cannot be made. Comparing property taxes as a percentage of total taxes or on a per capita basis indicates that North Dakota's property taxes are relatively low (Table 16).

Local Sales Tax

1984 legislation permits cities and counties which have home rule to levy a sales and use tax. The tax must be approved by a vote of the people. Currently, Grand Forks, Minot and Bismarck are levying a 1 percent sales and use tax (Table 17). Bismarck is not a full home rule city, but the charter was amended by a vote of the people to allow the sales tax. The State Tax Department collects the tax.

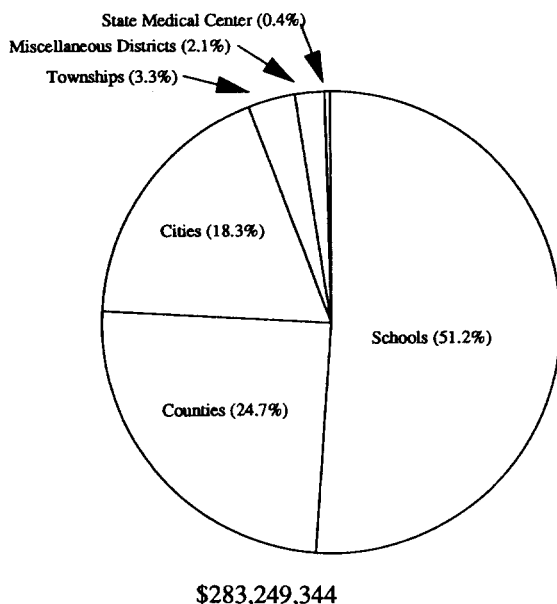


Figure 23. Total Property Taxes Levied, Percent of Total by Government Units, Calendar Year 1986, Payable in 1987, North Dakota

Table 15. Special Assessments, Cities and Rural Units, Percent Increase, 1977-1986, North Dakota

	1977	1986	% Increase 1977-1986	
			Nominal dollars	Real dollars
Cities	\$18,445,802	\$44,419,893	140.8	+ 33.8
Rural ^a	1,116,195	2,571,259	103.4	+ 11.6
Total	\$19,561,997	\$46,991,152	140.2	+ 33.5

^aIncludes counties, townships, irrigation districts, weed control, drainage, and other minor assessments.

Table 16. Property Taxes Per Capita and Percent of State and Local Taxes, North Dakota and Nearby States, Fiscal 1986^a

State ^b	Taxes per capita		
	Amount	State rank	Percent of total State & local taxes
Nebraska	\$579	14	43
Iowa	544	16	38
Kansas	533	18	38
Minnesota	528	19	31
South Dakota	477	23	42
U.S. Average	463		30
North Dakota	364 ^c	24	30 ^d

^aSource: **Government Finance in 1985-86**, Bureau of Census.

^bWyoming and Montana are omitted as they levy a local property tax on oil and coal.

^cOur data indicate total ad valorem taxes in 1986 were \$398 per capita.

^dThe comparable percentage in 1987 was 34 percent, a year with a decline in state taxes.

Table 17. Total Property and Sales and Use Taxes, Three Cities^a, 1987

Revenue source	Tax revenue	Percent
City property tax	\$27.7	74
City sales tax	9.6	26
Total	\$37.3	100

^aGrand Forks, Minot and Bismarck each levy a 1 percent sales and use tax.

At least 26 states allow a local sales tax. In South Dakota, 114 local units of government use a sales tax.

Comments on the local sales and use tax. This tax can provide substantial revenue to supplement the property tax. However, it can create a "border tax" problem. It may create an incentive for retailers to locate outside the city limits. Non-resident shoppers help pay for city services, which they may or may not use. A county-wide sales tax would alleviate, in part, some of these concerns.

Non-tax revenue. Local governments in total received about 27 percent of their revenue from various non-tax revenue sources in fiscal 1986. About 30 percent from local taxes and the remainder from state and federal transfers. Non-tax revenue includes charges, fees, interests, fines, donations and miscellaneous revenues.

Local Governments and Revenue Sources

The types of local governments vary considerably as to dependence on the different sources of revenue (Table 18).

Table 18. Percentage of Total Revenue by Source for Local Governments, Fiscal 1986, for Schools, 1987, North Dakota

Revenue source	Local Government Unit				
	Counties	Cities	Townships	Special districts	School districts
	-----Percentage-----				
Federal government ^a	7.2	8.6	6.8	29.0	7.5
State government	34.8	14.6	31.5	5.4	44.7
Local taxes	34.8	17.7	46.6	26.5	31.5
Charges & fees	2.8	16.2		25.9	5.4
Utilities		15.7			
Other local governments	2.9			2.7	2.0
Other non-tax revenue	17.5	27.2	15.1	10.5	8.9
Total	100.0	100.0	100.0	100.0	100.0
Amount, millions	\$182.9	\$235.3	\$18.9	\$40.9	\$460.8

Source: **Government Finances in 1985-86**, Bureau of Census; for schools, "Summary of Facts," Department of Public Instruction, June 30, 1987.

^aFederal government transfers in Fiscal 1986 included Federal Revenue Sharing funds. This program was terminated in September 30, 1986.

Total State and Local Taxes

State collected taxes accounted for nearly 66 percent of total state and local tax collections in fiscal 1987 and property taxes accounted for 34 percent. Total state and local tax collections increased in nominal dollars from fiscal years 1978 to 1985 then declined (Figure 24). Total collections in real dollars dropped in 1979, trended upward until 1984, then declined through 1987. Total real personal income in the state has shown a slight annual increase from 1981 through 1987, but total real tax collections have declined since 1984.

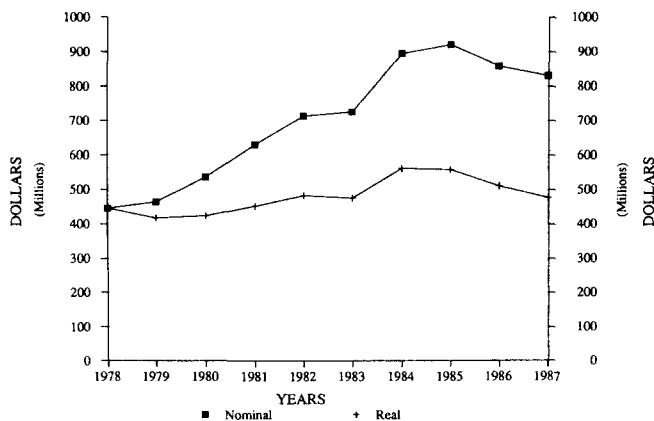


Figure 24. Total State and Local Tax Collections, Fiscal Years 1978-1987, North Dakota, Nominal and Real

Comparison With Nearby States

North Dakota's total state and local responsibility per capita is relatively low compared to nearby states and to the U.S. average (Table 19).

Federal Revenue Transfers

In fiscal 1986, North Dakota's state and local governments received just over \$400 million in federal transfers compared to total state and local tax collections of \$830 million in fiscal 1987. Rural states like North Dakota, with high per capita costs for highways and roads and below national average personal income tend to receive more federal aid per capita (Table 20).

Table 20. Per Capita Federal Transfers to State and Local Governments in North Dakota and Nearby States, and U.S. Average, Fiscal 1986

State	Amount per capita	Rank among states
Wyoming	\$968	2
Montana	669	5
North Dakota	602	8
South Dakota	579	10
Minnesota	519	17
U.S. Average	469	
Nebraska	427	39
Iowa	413	40

Source: Per Capita State and Local Government Revenue and Expenditures, Department of Agricultural Economics, University of Minnesota.

Table 19. Per Capita State Taxes, Property Taxes, Total Taxes, and Personal Income, Fiscal 1987, North Dakota and Nearby States^a

State	State taxes		Property taxes ^b		Total Taxes		Personal Income
	Amount	% of U.S.	Amount	% of U.S.	Amount	% of U.S.	% of U.S.
Wyoming ^c	\$1,198	164	\$1,172	253	\$2,370	164	83
Minnesota	1,292	126	528	114	1,820	126	102
Iowa	906	100	544	117	1,450	100	91
U.S. Average	986	100	463	100	1,449	100	100
Montana ^c	684	92	650	140	1,334	92	77
Nebraska	718	90	579	125	1,297	90	94
North Dakota	798	80	364	79	1,162	80	85
South Dakota	565	72	477	103	1,042	72	82

^aDoes not include other local taxes.

^bAssessed in 1986, paid in 1987 calendar year.

^cWyoming and Montana levy state taxes and local property taxes on coal and oil production.

Evaluation of State and Local Tax System

North Dakota's state and local tax system comprises a broad-based mix of taxes. Each tax has different characteristics relative to the evaluation criteria described previously.

Reliable revenue should be provided by a tax system so that governments can meet their financial commitments. State-level tax revenues have not kept pace with state level commitments in recent years unless adjusted by raising tax rates. Tax revenues have not kept pace with rising personal income. Property tax revenue increases are limited by statute so local government officials may not be able to raise revenue to meet local demands for services.

Private sector economic decisions should not be distorted by the tax system. The broad mix of taxes in North Dakota permits raising revenue without undue dependence on any one tax. This tends to minimize the effect of taxes as a possible deterrent to the state's economic growth.

Tax capacity and tax effort determine the tax revenue raised. North Dakota's major tax bases are wealth, consumption, income and oil and coal production. A 1987 report by the national Advisory Commission on Intergovernmental Affairs included estimates of tax capacity and tax effort for each state. The report indicated that from 1979 through 1985 North Dakota was above national average in tax capacity, but below national average in tax effort relative to tax capacity. Comparison of North Dakota with nearby states and the U.S. average as shown in tables in this publication indicate that this states' tax levels are relatively low.

Tax equity can be measured by the two equity principles, ability to pay and benefits received. North Dakota's state and local system is generally proportional and somewhat regressive relative to personal income so it does not measure well by the ability to pay principle. It conforms more closely to the benefits received principle. The tax equity study as summarized below provides evidence of this evaluation.

Tax Equity Study¹

The North Dakota tax system was analyzed to assess its equity based on the ability to pay and benefits received principles. Equity of the total state and local tax system including property taxes was analyzed on the basis of ability to pay. Equity of the state-level tax system was analyzed on the basis of on both equity principles, ability to pay and benefits received.

Study Method

Data on state and local taxes and on state government expenditures were analyzed to determine the equity of the tax system. Data were compiled by county as counties were considered to be the surrogate tax paying and benefit receiving units. The study was done for the 1986 calendar year, the most recent year for which all data were available.

Data on taxes paid were compiled or computed for each county. All major state taxes were included except the corporation income tax and the insurance premium tax. These taxes are not paid directly by persons in the county and are not subject to allocation by county. Two-thirds of the corporation income tax is paid by out-of-state corporations. Twelve percent of the total state taxes were not allocated to counties. Sales tax collections could not be directly allocated to counties; therefore, the sales tax was allocated to counties based on county personal income which tends to make it a proportional tax in the study. Research on types of taxes indicates the sales tax is regressive.

Data on benefits received included total state expenditures from tax revenues for services and revenue transfers to local governments that could be allocated among counties. About 13 percent of total state expenditures were not allocated, which were primarily expenditures for general state government services and for legislative and judicial branches.

Counties were grouped by several categories, the major categories being (1) per capita personal income, (2) percentage of total personal income from farming (5-year average), and (3) geographic location.

¹This is a brief summary of the study, "Evaluation of State-Level Tax Equity in North Dakota in 1986," Agricultural Economic Report by Baltezare, Leitch, Dorow and Gustafson, North Dakota State University.

The comprehensive analysis of the tax system includes two major categories: total state and local taxes excluding energy taxes, and total state taxes excluding energy taxes. Energy taxes are oil and coal taxes and coal conversion taxes. The benefits received analysis included average per capita benefits received, total benefits received relative to personal income, and the net benefit ratio. Net benefit ratio is ratio of benefits received to state taxes paid.

Brief Summary of Results

Total State and Local Taxes Paid (Excluding Energy Taxes)

Total taxes paid were analyzed for the three major groupings of counties.

Per capita income. Counties with the highest per capita income (\$14,000 or more) paid \$1,130 on average in per capita taxes compared to \$770 for the lowest per capita income counties. Total tax liability for high and low income was slightly regressive relative to personal income.

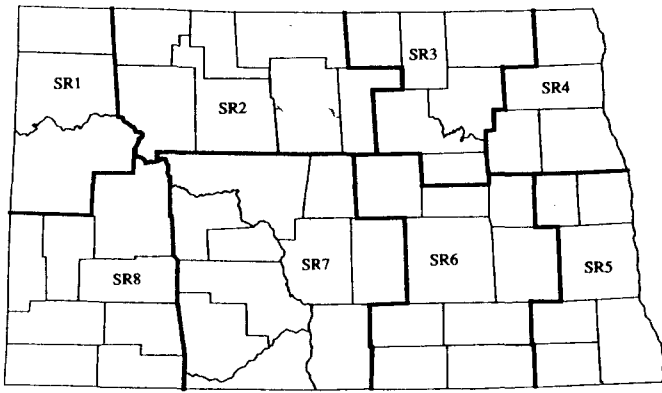
Percent of personal income from farming. Counties in which net farm income comprised a higher percent of total personal income had a higher average per capita tax liability than counties in which farm income comprised a smaller share of personal income. Also, the tax liability in farming counties was somewhat higher as a percent of personal income.

Geographic location. Counties in the western and eastern areas of the state had higher per capita tax liabilities than the central areas. However, taxes paid as a percentage of personal income were generally proportional across geographic locations (see map).

Total State Taxes Paid (Excluding Energy Taxes)

Total state taxes paid were analyzed for the three major groupings of counties. (Property taxes not included).

Per capita income. The high per capita income counties paid \$626 in state taxes per capita compared to \$445 for the low income counties. The state



North Dakota State Planning Regions

tax system was slightly regressive when measured as a percent of personal income. Total state taxes paid were about 4.35 percent of total personal income as an average for all counties.

Percent of personal income from farming. Counties in which net farm income comprised a higher percent of total personal income had a somewhat higher average per capita state tax liability than counties in which farm income comprised a smaller share of personal income. The tax liability in the farming counties was a higher percent of personal income.

Geographic location. The west and east areas of the state had higher state tax liabilities per capita than the central area. However, the tax liability as a percent of total personal income was relatively constant among geographic areas.

The Tax System

This study indicates that North Dakota's state and local tax system and the state-level tax mix are slightly regressive relative to personal income. This implies that the tax system is not entirely equitable based on the ability to pay principle.

Benefits Received

State government expenditures by county groups are used to estimate benefits received from state taxes paid. The measures used in the analysis include (1) average per capita benefits received, (2) benefits received as a percent of total personal income, and (3) the net benefit ratio (ratio of benefits received to state taxes paid).

Allocation of state government expenditures by county results in some distortion because of the high expenditures for state institutions in some counties. The State School in Grafton, the State Hospital in Jamestown, and the universities and colleges result in higher expenditures in those coun-

ties. The detailed study includes analyses with different expenditure categories breakdowns. However, this summary, with all benefits received, indicates the general relationships by the above measures.

The benefits received measures are included below for the three major groups of counties as identified in the study method.

All county groups received net benefits. That is, state expenditures were greater than state taxes paid. This is possible because energy taxes, corporation income taxes, insurance premiums taxes and several minor taxes were not included in taxes paid.

Per capita income group. Benefits received per capita were generally similar across personal income county groups. Lower income groups received more benefits relative to income than the higher income groups. Net benefits received were higher for the lower county income groups than for the higher county income groups. Generally, low county income groups received more benefits relative to taxes paid.

For percent of personal income from farming, benefits received per capita were generally lower for the farm dependent counties than those less dependent on farming. Benefits received relative to personal income were generally lower for the farm dependent counties. Net benefits received were generally lower for the farm dependent counties than for those less dependent on farming.

By geographic area benefits received per capita were generally higher in the western and eastern areas of the state. The west receives considerable revenue from energy tax distributions. The eastern area receives expenditures for the Grafton School and higher education at UND and NDSU. Benefits received relative to personal income was somewhat higher for the eastern and western areas than the central areas. Net benefits received were somewhat higher for the eastern area. The central and western areas had similar net benefit ratios.

Summary Comments

High per capita income counties generally received less net benefits than low income counties. This suggests that the state government is redistributing some wealth from high per capita income counties to low per capita income counties. Rural counties more dependent on farming generally received less benefits than those less dependent on farming.

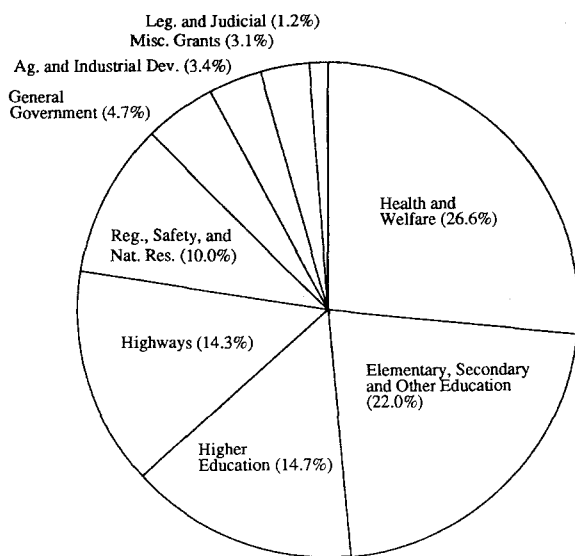
The state tax system generally conforms to the benefits received principle in that those who are paying taxes are receiving proportionate level of services. As indicated in the tax analysis, there appears to be some potential for greater dependence on the ability to pay principle to utilize a larger share of the revenue capacity.

Financing Major State and Local Public Services

Our state and local taxes combined with federal aid and non-tax revenue finance a broad range of public services. About two-thirds of total revenue expenditures are for the four major categories of public services: public schools, higher education, health and human services, and highways and roads (refer to Figure 1).

Legislative Appropriation

The state legislature appropriates all tax and non-tax revenue for state government services and for aid to local governments. An exception for higher education is that only state aid, tuition and other revenue for direct support of education are appropriated. State taxes accounted for about 40 percent of total revenue for state appropriations of \$2,468 million for the 1985-87 biennium (Figure 25).



\$2,468.0 Million
(Two Years)

Figure 25. Total State Legislative Appropriations, 1985-87 Biennium, By Program

Source: Legislative Appropriations for the 1985-87 Biennium, Office of Management and Budget

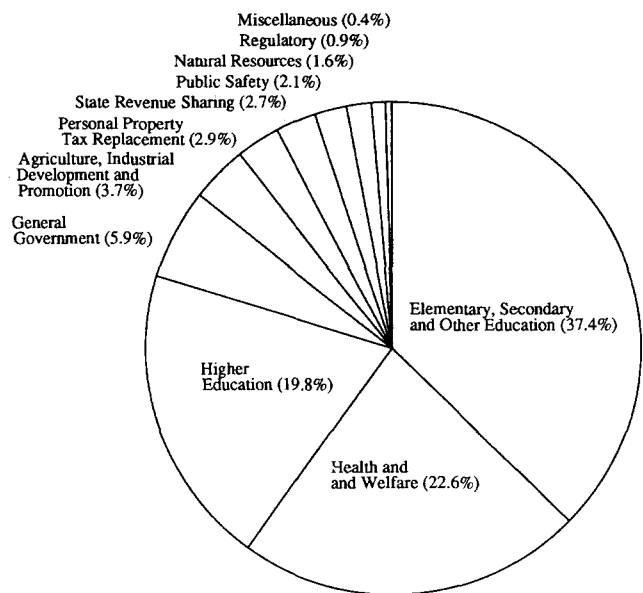
General Fund Expenditures

The state general fund consists primarily of state tax revenue which the legislature appropriates for state services and aid to local governments. The major services funded are public schools, higher education and health and welfare (Figure 26).

State Aid to Local Government. Local governments received 44 percent of state general fund expenditures for the 1985-87 biennium under various state aid programs (Table 21).

Public Elementary and Secondary Schools

The public school system is North Dakota's largest public service. It is provided at the local level



\$1,069.8 Million
(Two Years)

Figure 26. State General Fund Expenditures for 1985-87 Biennium, by Program

Source: Thirty-eighth Biennial Report, State Tax Department, Dec. 1987

Table 21. State General Fund Appropriations for Assistance to Local Governments, 1985-87 Biennium, North Dakota

Distribution	Amount (millions)	Percent	Percent of appropriations
Public schools	\$370.1	78.0	34.6
Vocational education	12.9	2.7	1.2
Personal property tax replacement ^a	31.3	6.6	2.9
Revenue sharing ^a	28.7	6.1	2.7
Reimburse counties for human services	3.3	0.7	0.3
State funding of district court costs	14.6	3.1	1.4
Other	13.2	2.8	1.2
Total	\$474.1	100.0	44.3

Source: Major State General Fund Appropriations for Assistance to Political Subdivisions, 1967-69 through 1987-89. Legislative Council Staff, April 1987.

^aAppropriations for personal property tax replacement and revenue sharing to counties and cities were reduced about 30 percent and 25 percent respectively for the 1987-89 biennium.

with major state revenue assistance. About 38 percent of total state and local taxes are allocated to public schools. Total enrollment was 118,094 in grades kindergarten through 12 for the 1986-87 school year.

Costs and Revenue

Total cost of operating North Dakota's public school system for the 1986-87 school year was about \$460 million including capital projects and other special funds. State aid was the largest source of revenue (Figure 27).

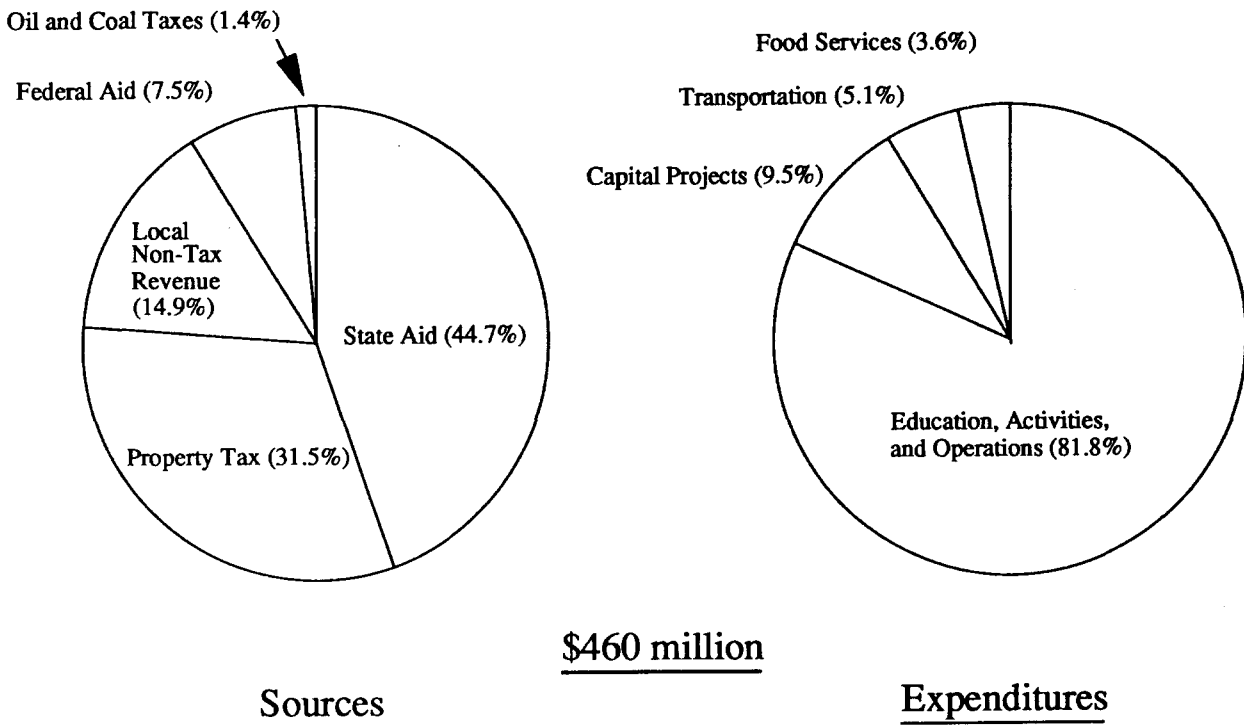


Figure 27. Revenue Sources and Expenditures for Public Schools, School Year 1986-87, North Dakota

State aid. State per pupil aid by formula for 1986-87 was \$1,367 per weighted pupil unit. Total state aid from all sources was \$207 million (Table 22) for an average of \$1,750 per student. Per pupil formula payments for 1987-88 were \$1,400 per pupil unit.

Table 22. State Aid to Public Schools, 1986-87 School Year, North Dakota

Source	Amount
	(millions)
Formula pupil aid	\$150.1
Transportation aid	18.4
Trust fund, tuition	26.5
Vocational & special educ.	9.2
Total aid	\$207.4

The formula aid varies by size of school and grade of student. The aid ranged from 90 percent of the \$1,367 average (\$1,230) for grades one through six with enrollments of 100-999, to 170 percent of the average \$1,367 (\$2,323) for small high schools with under 75 enrollment.

Higher Education

About 28,300 full-time equivalent students were enrolled in the eight state institutions and three branches of higher education during the 1987-88 college year. The peak enrollment was 29,600 in 1983-84. These enrollments do not include medical students and nursing students at the University of North Dakota.

Revenue

Primary revenue sources for educational purposes are state appropriations, student tuition, endowments and grants.

Appropriated funds. Legislative appropriations for higher education for the 1987-88 college year are shown in Table 23. The \$128 million in appropriated funds is about \$4,256 per full-time equivalent student.

Table 23. Appropriated Funds for Higher Education, 1987-88 Year, North Dakota^a

Source	Amount	Percent
	(millions)	
State general fund	\$ 86.7	67.7
Student tuition	36.1	28.2
Other	5.3	4.1
Total	\$128.1	100.0

^aDoes not include the UND Medical School.

North Dakota's rank. This state ranks first among states in percentage of young adults enrolled in higher education and third in number of students in higher education relative to number of high school graduates. However, in 1985-86, North Dakota ranked 40th among states in state and local tax appropriation per full-time equivalent student, and 29th in tuition revenue per student.

UND Medical School

The UND Medical School had a first semester enrollment of 210 students in 1986-87. Total operating budget for the 1987-88 school year was \$15.5 million, including \$13.8 million from the state general fund, \$621,700 from tuition and \$1,130,000 from other sources. Tuition has been increased for 1988-89 and is estimated to be \$1,058,900. For the 1987-88 school year, the cost per medical student was about \$73,800.

Human Services and Welfare

The State Department of Human Services is responsible for a multifaceted program providing needy families and persons with economic assistance, health care, human services, vocational rehabilitation and related programs.

Human service programs are facilitated in partnership with 53 county social service offices and with the private human service delivery sector. Major assistance programs are supervised at the county level; however, federal and state funds provide most of the financing.

Expenditures by Major Service

Expenditures by the Department of Human Services for the 1985-87 biennium were over \$500 million (Figure 28).

Sources of Financing

Funds for all programs of the Department of Human Services for fiscal 1987 came from four sources, over half from federal grants (Figure 29) (this includes the State Hospital).

Public Health - State Department of Health

The State Department of Health has responsibility for several broad programs. It assists the programs of district, county, and city/county health units and departments. Program areas include:

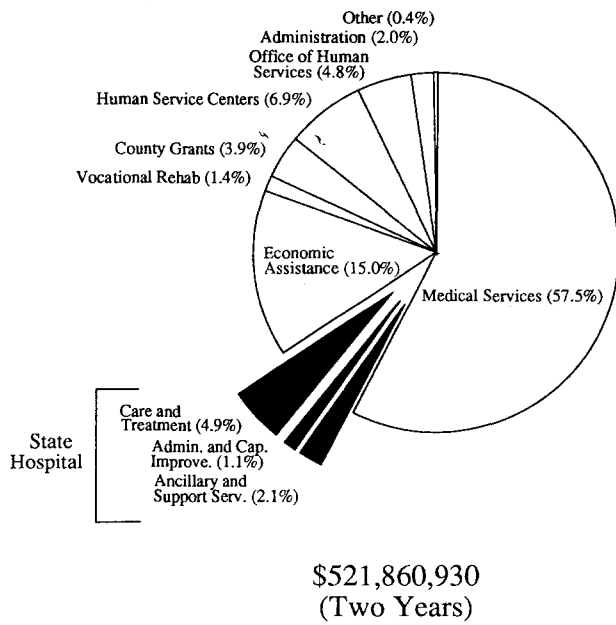


Figure 28. Expenditures of the Department of Human Services by Major Service, Fiscal 1985-87, North Dakota
Source: Biennial Report, North Dakota Human Services, 1985-1987

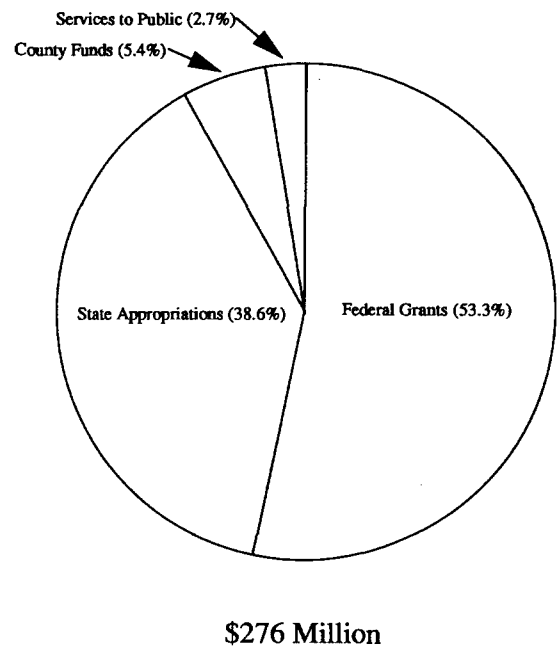


Figure 29. Sources of Revenue for Department of Human Services Programs, Fiscal Year 1987, North Dakota

- **Preventive health** - Community health nursing, disease control, local health services, health education, maternal and child health.
- **Health resources** - Emergency health services, health facilities, health planning, project review, health resource analysis.
- **Environmental health** - Environmental enforcement and legal services, environmental engineering, waste management, water supply and pollution control.
- **Laboratory Services** - Chemistry, microbiology, and environmental sanitation.

The annual funds by source for the Department of Health during the 1985-87 biennium were approximately:

Source	Amount (millions)	Percent
Federal and other funds	\$11.4	70.8
State general funds	4.7	29.2
Total	\$16.1	100.00

Local health agencies at the district, county and city level spent about \$6.8 million in fiscal 1987.

About 23 percent came from property tax levies, 7 percent from state aid and the remaining 70 percent from federal grants, Medicare, Medicaid and other local sources.

Highways, Roads and Streets

North Dakota's highway and road system includes 106,472 miles of highways, roads and streets (Table 24).

State and federal revenue sources accounted for nearly three-fourths of total revenue for the state highways, roads and streets (Table 25).

Table 24. Existing Mileage of North Dakota Highways, Roads and Streets, 1986

Road Systems	Total mileage
State highways	7,332
County federal aid secondary system	9,387
Other rural roads	82,264 ^a
Incorporated city streets	3,489
Total	106,472

^aIncludes 26,000 miles of unimproved roads and trails.

Table 25. Estimated Revenue for Highways, Roads and Streets, Fiscal 1987, North Dakota

Source	Amount (millions)	Estimated percent
State highway revenue	\$ 89.5	38
To State Highway Dept.	\$ 56.9	24
To local governments	32.6	14
Federal aid	86.6	37
For State Highway Dept.	67.1	29
For local governments	19.5	8
County property tax levies ^a	15.7	7
Township property tax levies	8.8	4
Total identified funds	\$200.6	
Other estimated revenue ^b	\$30.0 to \$40.0	14
Total	\$230.6 to \$240.6	100

^aIncludes only specific levies for roads.

^bThese revenues are not identified in state reports. Included are city special assessment for streets and city and county general revenue allocated to road and street maintenance.

Federal aid for highways is financed from the federal 9 cents per gallon tax on gasoline and 15 cents per gallon on diesel and special fuels used in

highway vehicles. An estimated \$45 million was collected in federal motor or vehicle fuel taxes in North Dakota in fiscal 1987. North Dakota received \$86.6 million in federal aid for highways and roads in fiscal 1987.

Expenditures for highways, roads and streets for fiscal 1986 are shown in Table 26.

Table 26. Expenditures for Highways, Roads and Streets, by Level of Government, Fiscal 1986, North Dakota

Level of government	Amount (millions)	Percent
State Highway Department ^a	\$129.1	56.7
Counties	65.8	28.9
Cities	22.4	9.9
Townships	10.3	4.5
Total	\$227.6	100.0

Source: **Government Finances in 1985-86**. Bureau of the Census, for local governments. North Dakota State Highway Statistics, 1986, for State Highway Department.

^aAbout 10 percent of the State Highway Department Expenditures is allocated for the State Highway Patrol, research, drivers license division, safety and tourism.

Outlook For Financing State and Local Public Services

Looking ahead for several years, North Dakota's state and local revenue needs and revenue collections will be influenced by many factors including:

- federal spending in the state,
- federal transfers to state and local governments,
- level and location of economic activity,
- population changes and shifts within the state, and
- taxing and spending policies.

Federal Spending Trends in the State

Total federal spending in the state increased from \$1,439 million in fiscal 1981 to \$2,793 million in 1986, a 94 percent increase in nominal dollars and a 50 percent increase in real dollars. Sharp increases in federal farm program payments to \$700 million in 1986 contributed to the increase. Federal spending excluding farm program payments increased 18 percent in real dollars.

Federal transfers. Federal transfers to our state and local governments increased from \$243 million in fiscal 1979 to \$409 million in 1986, a nominal increase of 68 percent, and a real increase of 5 percent. However, federal transfers to local governments were down over 15 percent in real dollars in 1986 compared to 1979. Also, Federal Revenue Sharing funds of \$11.3 million annually to local governments were terminated September 30, 1986.

Economic Activity

The basic economic components that affect the growth of the state's economy include agriculture, mining, manufacturing, tourism and federal government expenditures in the state. These economic activities bring money into the state from outside sources.

A recent study by the Department of Agricultural Economics, NDSU, included projections of trends in the state's economic base. These projected trends are discussed below.

Agriculture. This industry accounts for about 40 percent of the economic base components. Except for possible effects of the 1988 drought on future farm prices, the economic trend study projects no in-

crease over the next five years in gross farm income in real dollars over the recent \$3.0 billion annual average. Farm numbers continue to decline at an annual 2-3 percent rate.

Oil and coal. Oil production in 1987 was down 20 percent from the peak in 1984, and oil prices were down 50 percent. Coal mining has stabilized at about 25 million tons annually. The NDSU study projected a slight decline in real gross business volume for both the oil industry and coal mining over the next several years.

Manufacturing. Agricultural processing and other manufacturing account for about 8 percent of gross business volume in the state. The North Dakota Job Service reported 15,530 manufacturing employees in the state in April 1980, and 15,850 in April 1988. Without major added investment, the manufacturing sector is not projected to grow in real terms.

Shifting economic activity. Economic activity as measured by taxable retail sales is shifting from smaller towns to larger towns and cities. The 18 cities with over 2,500 population had 73 percent of total taxable sales in the state in 1980 and 79 percent in 1986. Population is also shifting to larger cities, but at a slower pace.

Implications. Agriculture and the oil industry are subject to national and international developments. Sustained economic growth in the state may depend on expansion of manufacturing, tourism and other industries which export goods or services outside the state.

Population Changes

Population change and distribution are influenced by employment and income opportunities. With the recent decline in the oil industry and the agricultural recession, the state's population declined 1.1 percent from 1984 to 1986 to an estimated 672,000.

Population continues to shift gradually from rural to urban area. North Dakota became an urban state, by Census Bureau definition, sometime between 1984 and 1986. This means that over half the population was living in places of 2,500 population or more.

School enrollment. Total public school enrollment in the state is relatively stable. However, enrollment

is dropping at a relatively rapid pace in rural counties. Enrollment dropped more than 10 percent in 20 counties from 1980-81 to 1987-88. Costs of education per pupil are generally higher in small schools than in larger schools. Declining enrollment in rural schools and enrollment shifting to larger schools raises the total public school costs in the state.

Elderly population. North Dakota's population is gradually aging. The percentage of the population 65 years of age and over increased from 10.7 percent in 1970 to 12.9 percent in 1986. Retired persons generally have lower levels of income and spending than when employed. Public service needs, particularly health service costs, tend to be higher for the elderly.

Implications. Population changes in North Dakota tend to increase total public service costs. With a relatively stable but shifting population from rural to urban areas, total public service costs for the state increase because resources in declining areas are not fully utilized while additional investments are made in the expanding urban areas.

Policy Decisions

Based on present trends, costs of state and local public services are projected to continue increasing; however, tax revenues are not projected to keep pace with expenditures. The response alternatives appear to be (1) higher tax rates, (2) increase in non-tax revenue, (3) reduced level of public services, or more likely (4) a combination of the three.

North Dakota is not using its tax capacity as fully as the average of all states; therefore, total state and local taxes are relatively low compared to the national average and to nearby states. In particular, the income base in North Dakota is taxed at a comparatively low level.

If taxes are increased, one or more of the major taxes would be the likely alternative.

Property taxes now account for 34 percent of total state and local taxes. Under the ability to pay principle, this tax does not reflect the owner's wealth. The property tax does not conform well to the benefits received principle when used to support public schools and social programs. The property tax will continue to be the major local government tax. However, raising property taxes to solve statewide revenue problems may not be acceptable to property owners.

The **sales tax** is a broadly based tax paid by most persons in the state. Sales tax revenue supports many services used by the public. However, it is a regressive tax. There may be opportunity to broaden the tax base rather than increase the tax rate to raise more revenue.

The **income tax** is the only clearly progressive tax in our state and local tax system. Increasing the individual income tax can be rationalized under the ability to pay principle. Policies affecting the corporation income tax need to consider the possible effect on business investment in the state.

Energy taxes are important, but highly variable sources of state revenue. There is concern that higher oil taxes would discourage production. The 1987 Legislature reduced oil and coal tax rates to encourage production.

Motor fuel tax revenues are earmarked funds for highways, roads and streets. Increased revenue could be used to assist with local government roads and streets.

People Decide. The people of North Dakota will decide, through elected representatives in state and local government, the level of public services they are willing to support. They will also decide which revenue sources should be increased, if necessary, to support public services.

Total State and Local Taxes, Fiscal Year 1987 & 1988, North Dakota, and Changes from 1987 to 1988¹

Type of tax	Fiscal 1987	Fiscal 1988	Change, 1987-1988	
	-----thousands-----	-----thousands-----	thousands dollars	percent
State sales & use tax	\$171,439	\$205,816	\$34,377	20.0
Motor vehicle excise tax	23,828	28,255	4,427	18.6
Motor vehicle use tax	3,287	3,867	580	17.6
State sales, use and excise taxes	198,554	237,938	39,384	19.8
City sales tax	9,571	9,236	-335	-3.5
Individual income tax	80,150	114,021	33,871	42.3
Corporate income tax	30,871	38,983	8,112	26.3
Income taxes	111,021	153,004	41,983	37.8
Motor fuels taxes	55,023	72,373	14,588	31.5
Motor vehicle registration fees	29,680	32,178	2,498	8.4
Highway user's taxes	84,703	104,551	19,848	23.4
Oil and gas production tax	34,357	35,261	904	2.6
Oil extraction tax	34,989	36,954	1,965	5.6
Coal severance tax	26,323	20,750	-5,573	-21.2
Coal conversion tax	9,888	10,584	696	7.0
Energy taxes	105,557	103,549	2,008	-2.0
Insurance premium tax	13,042	13,178	136	1.0
Cigarette and tobacco taxes	11,257	16,635	5,378	47.8
Liquor and beer taxes	5,607	5,618	11	.2
Business privilege tax	2,571	2,111	-457	-17.9
Gaming tax	1,591	1,673	82	5.2
Estate tax	1,932	1,466	466	-24.1
Miscellaneous taxes	1,261	1,784	523	41.1
Total State Collected Taxes	\$546,667	\$650,743	104,076	19.0
Property taxes levied	283,249	294,124	10,875	3.8
Total State and Local Taxes	\$829,916	\$944,867	114,951	13.8

Significant Changes in Tax Rates from Fiscal Year 1987 to Fiscal Year 1988.

Sales and use tax: FY 1987 reflects a 4% tax rate for 6 months and 5% for 6 months. The FY 1988 rate was 5.5%. Tax rate on farm machinery increased from 3% in FY 1987 to 3.5% in FY 1988.

Individual income tax: FY 1987 reflects the 10.5% rate on federal tax liability for 6 months and 14% rate on federal tax for withholding for part of year. FY 1988 reflects 14% rate on federal plus 10% surtax for 1987 only.

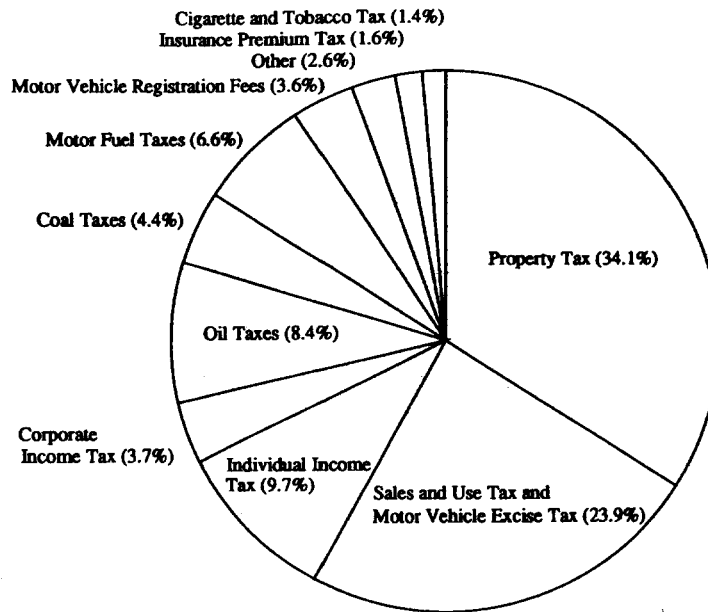
Motor fuels taxes: Motor fuels taxes were increased from 13 cents per gallon in FY 1987 to 17 cents in FY 1988.

Coal severance tax: Tax rate was reduced from \$1.04 per ton in FY 1987 to 77 cents per ton in FY 1988.

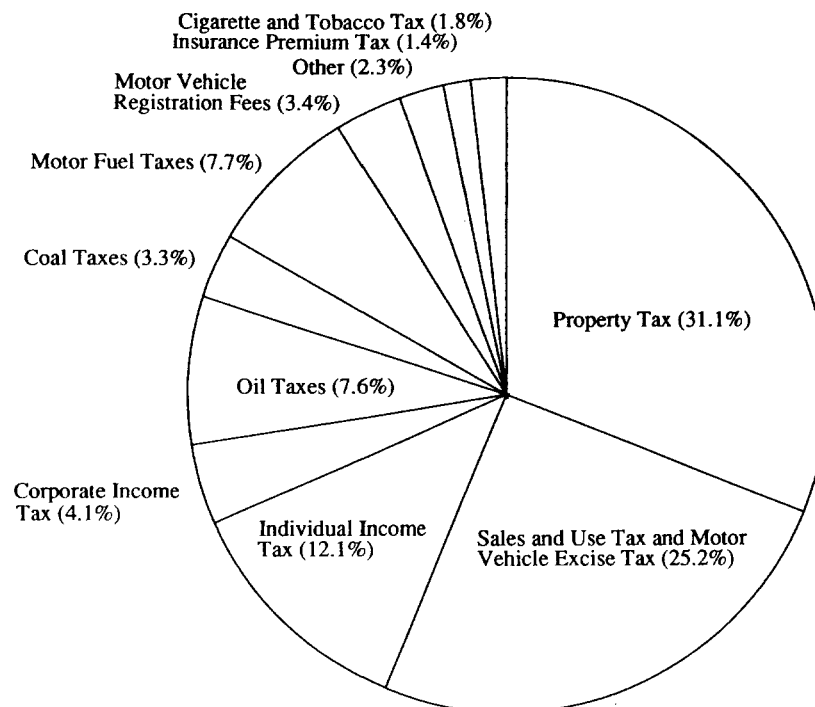
Cigarette and tobacco taxes: Cigarette taxes were increased from 18 cents per package in FY 1987 to 27 cents in FY 1988. Tax on tobacco products was increased from 11% to 20% on wholesale price.

¹/Supplement to Extension publication "North Dakota's State and Local Tax System." This sheet was prepared after receiving fiscal 1988 tax collection data from the state tax department, by Norbert A. Dorow, Economist, NDSU Extension Service.

\$829.9 Million
Total State and Local Taxes By Source
Fiscal Year 1987, North Dakota



\$944.9 Million
Total State and Local Taxes By Source
Fiscal Year 1988, North Dakota



Helping You Put Knowledge To Work

NDSU Extension Service, North Dakota State University of Agriculture and Applied Science, and U.S. Department of Agriculture cooperating. William H. Pietsch, Director, Fargo, North Dakota. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. We offer our programs and facilities to all persons regardless of race, color, sex, religion, age, national origin, or handicap; and are an equal opportunity employer.