

**FIRST ENGROSSMENT
with House Amendments
ENGROSSED SENATE BILL NO. 2318**

Introduced by

Senator Cook

1 A BILL for an Act to create and enact a new section to chapter 57-39.2 and a new subdivision to
2 subsection 4 of section 57-40.2-03.3 of the North Dakota Century Code, relating to a sales and
3 use tax exemption for carbon dioxide capture equipment used for enhanced oil recovery; to
4 amend and reenact section 57-60-06 of the North Dakota Century Code, relating to ad valorem
5 property tax exemption for carbon dioxide capture equipment used for enhanced oil recovery; to
6 provide for a legislative management study; and to provide an effective date.

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

8 **SECTION 1.** A new section to chapter 57-39.2 of the North Dakota Century Code is created
9 and enacted as follows:

10 **Sales and use tax exemption for materials used in compressing, gathering,**
11 **collecting, storing, transporting, or injecting carbon dioxide for use in enhanced**
12 **recovery of oil or natural gas.**

13 1. Gross receipts from sales of tangible personal property used to construct or expand a
14 system used to compress, gather, collect, store, transport, or inject carbon dioxide for
15 use in enhanced recovery of oil or natural gas in this state are exempt from taxes
16 under this chapter. To be exempt, the tangible personal property must be incorporated
17 into a system used to compress, gather, collect, store, transport, or inject carbon
18 dioxide for use in enhanced recovery of oil or natural gas. Tangible personal property
19 used to replace an existing system to compress, gather, collect, store, transport, or
20 inject carbon dioxide for use in enhanced recovery of oil or natural gas does not
21 qualify for exemption under this section unless the replacement creates an expansion
22 of the system.

23 2. To receive the exemption under this section at the time of purchase, the owner of the
24 gas compressing, gathering, collecting, storing, transporting, or injecting system must

1 receive from the tax commissioner a certificate that the tangible personal property
2 used to construct or expand a system used to compress, gather, collect, store,
3 transport, or inject carbon dioxide for use in enhanced recovery of oil or natural gas
4 qualifies for the exemption. If a certificate is not received before the purchase, the
5 owner shall pay the applicable tax imposed by this chapter and apply to the tax
6 commissioner for a refund.

7 3. If the tangible personal property is purchased or installed by a contractor subject to the
8 tax imposed by this chapter, the owner of the gas compressing, gathering, collecting,
9 storing, transporting, or injecting system may apply to the tax commissioner for a
10 refund of the difference between the amount remitted by the contractor and the
11 exemption imposed or allowed by this section. Application for a refund must be made
12 at the time and in the manner directed by the tax commissioner and must include
13 sufficient information to permit the tax commissioner to verify the sales and use taxes
14 paid and the exempt status of the sale or use.

15 4. This chapter and chapter 57-40.2 apply to the exemption under this section.

16 **SECTION 2.** A new subdivision to subsection 4 of section 57-40.2-03.3 of the North Dakota
17 Century Code is created and enacted as follows:

18 Materials used in compressing, gathering, collecting, storing, transporting, or
19 injecting carbon dioxide for use in enhanced recovery of oil or natural gas as
20 provided in section 1 of this Act.

21 **SECTION 3. AMENDMENT.** Section 57-60-06 of the North Dakota Century Code is
22 amended and reenacted as follows:

23 **57-60-06. Property classified and exempted from ad valorem taxes - In lieu of certain**
24 **other taxes - Credit for certain other taxes.**

25 Each coal conversion facility and any carbon dioxide capture system located at the coal
26 conversion facility, and any equipment directly used for enhanced recovery of oil or natural gas
27 must be classified as personal property and is exempt from all ad valorem taxes except for
28 taxes on the land on which such the facility, capture system, or equipment is located. The
29 exemption provided by this section may not be interpreted to apply to tangible personal property
30 incorporated as a component part of a carbon dioxide pipeline but this restriction does not affect

1 eligibility of such a pipeline for the exemption under section 57-06-17.1. The taxes imposed by
2 this chapter are in lieu of ad valorem taxes on the property so classified as personal property.

3 **SECTION 4. LEGISLATIVE MANAGEMENT STUDY - OIL EXTRACTION TAX**

4 **EXEMPTION FOR CARBON DIOXIDE RECOVERY PROJECTS.** During the 2015-16 interim,
5 the legislative management shall study the oil extraction tax exemption available for incremental
6 production from a tertiary recovery project that uses carbon dioxide. The study must include
7 consideration of the potential benefits and costs to industry, the state, and the environment of
8 using carbon dioxide enhanced recovery methods. The legislative management shall secure
9 assistance from the energy and environmental research center to analyze potential future
10 usage of carbon dioxide in oil recovery operations in the Bakken and Three Forks formations,
11 the potential production and environmental benefits of that usage for energy industries in this
12 state, the economic conditions in which that usage is feasible for oil producers, and the
13 estimated fiscal effect of that usage for the state and political subdivisions. The legislative
14 management shall report its findings and recommendations, together with any legislation
15 required to implement the recommendations, to the sixty-fifth legislative assembly.

16 **SECTION 5. EFFECTIVE DATE.** Sections 1 and 2 of this Act are effective for tax periods
17 beginning after June 30, 2015. Section 3 of this Act is effective for taxable years beginning after
18 December 31, 2014.