PROPERTY TAX RATES APPLIED AGAINST TRUE AND FULL VALUE OF PROPERTY

Under North Dakota law, property is required to be assessed at its true and full value for property tax purposes. True and full value of agricultural property is determined through an agricultural productivity valuation formula, and other properties are valued through assessment policies designed essentially to determine the current, correct market value of property. The current approach to applying property tax rates against property value was restructured by legislation enacted in 1981. The 1981 restructuring was intended to continue use of mill rates against property values to determine property tax liability.

Article X, Section 15, of the Constitution of North Dakota, provides the debt of any political subdivision may not exceed 5 percent of the assessed value of taxable property in that political subdivision. The constitutional provision also allows voters to approve an increased debt limit for cities and school districts. Because of the constitutional provision, the 1981 restructuring set a statutory definition of assessed value as 50 percent of true and full value to retain approximately the same debt limit for political subdivisions. The 1981 restructuring set the current rate of taxable valuation of commercial, agricultural, and centrally assessed property at 10 percent of assessed value and the taxable valuation of residential property at 9 percent of assessed value. These changes allowed a property tax mill rate of one mill to generate approximately the equivalent amount of property tax revenue as prior to the restructuring.

In recent years, legislators have reported growing frustration among constituents with understanding how property tax bills and rates are determined because of the complexity of the current method of reducing true and full value to a taxable value amount and then applying local property tax mill rates. Due in large measure to these frustrations, 2013 Senate Concurrent Resolution No. 4030 was introduced as a constitutional amendment to revise relevant constitutional provisions to allow the Legislative Assembly to substitute use of the term assessed value for the current method of using the term true and full value to refer to the actual value of property. The measure as introduced would have reduced the constitutional debt limit rates by 50 percent to retain the same amount as a debt limit because the assessed value would have doubled under that change. During committee discussion of the resolution, it was suggested it may be very difficult to explain to voters why this change is needed and the necessity for a constitutional amendment could be avoided. This could be accomplished if the statutory definition of assessed value remains at 50 percent of the market or formula value of property and taxable value is redefined as 90 percent of true and full value for residential property and 100 percent of true and full value for commercial, agricultural, and centrally assessed property. It was suggested this change would allow conversion of the current method of applying mill rates into a method of applying property taxes as a percentage of the full value of most property types. After that discussion, the resolution was amended from a proposed constitutional amendment into a study resolution to examine the feasibility of the discussed changes.

The Taxation Committee considered the desirability of converting a tax rate of one mill against the true and full value of property to a tax rate of .00005 per dollar of taxable valuation. The committee did not appear to be of the opinion that such a conversion would make property tax calculation adequately understandable for taxpayers. Another option is to convert a one mill tax rate to its equivalent rate of 5 cents per $1,000 of taxable valuation if taxable valuation is equal to true and full value for agricultural, commercial, and centrally assessed property and 90 percent of true and full value for residential property. A tax rate of 5 cents per $1,000 of value is employed in other states.

The following is a table format comparison of the current method and the optional method of converting a tax rate of one mill to a tax rate of 5 cents per $1,000 of taxable value.

	Residential	Agricultural, Commercial, Centrally Assessed
Current Method		
True and full	$100,000	$100,000
Assessed	$50,000	$50,000
Taxable	$4,500	$5,000
One mill tax (.001)	$4.50	$5.00
300 mills tax (.3)	$1,350	$1,500
Effective tax rate	1.35%	1.5%
Optional Method		
True and full	$100,000	$100,000
Taxable	$90,000	$100,000
Assessed	$50,000	$50,000
One mill equivalent (5 cents per $1,000) tax	$4.50	$5.00
300 mills equivalent ($15 per $1,000) tax	$1,350	$1,500
Effective tax rate	1.35%	1.5%

Whether the one mill equivalent of 5 cents per $1,000 of taxable value is more user-friendly than a tax rate of one mill is debatable. However, it appears easier for taxpayers to understand a tax rate applied against "actual" value than a rate in mills applied against 4.5 or 5 percent of actual value of property.

A brief review of the text of the North Dakota Century Code indicates a bill draft to make necessary revisions to implement the optional method would require revision of at least 100 to 150 statutory sections. Such a bill draft would require detailed review by the committee and by local property officials to assure to the fullest extent possible the full and correct conversion of the current method into the optional method.