Sixty-sixth Legislative Assembly of North Dakota

FIRST ENGROSSMENT with Conference Committee Amendments ENGROSSED HOUSE BILL NO. 1040

Introduced by

Legislative Management

(Taxation Committee)

1 A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to

2 subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision

3 of an income tax credit for purchases of manufacturing machinery and equipment to automate

4 manufacturing processes; to provide an effective date; and to provide an expiration date.

5 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

6 SECTION 1. A new section to chapter 57-38 of the North Dakota Century Code is created
7 and enacted as follows:

8 <u>Twenty-first century manufacturing workforce incentive.</u>

- 9 <u>1.</u> <u>A taxpayer that is a primary sector business is allowed a nonrefundable credit against</u>
- 10 the tax imposed under section 57-38-30 or 57-38-30.3 for purchases of manufacturing
- 11 <u>machinery and equipment for the purpose of automating manufacturing processes in</u>
- 12 this state to improve job quality or increase productivity. The amount of the credit
- 13 <u>under this section is twenty percent of the cost of the manufacturing machinery and</u>
- 14 equipment purchased in the taxable year. Qualified expenditures under this section
- 15 <u>may not be used in the calculation of any other income tax deduction or credit allowed</u>

16 <u>under this chapter.</u>

- 17 <u>2.</u> For purposes of this section:
- 18a."Improved job quality" means a five percent increase in average wages or a five19percent improvement in workplace safety as documented through participation in20workforce safety and insurance safety incentive programs.
- 21b."Increased productivity" means no less than a five percent increase in output or a22five percent increase in the number of units produced per automated line per time23period.

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1		c. <u>"Manufacturing machinery and equipment for the purpose of automating</u>
2		manufacturing processes" means new or used automation and robotic equipment
3		used to upgrade or advance a manufacturing process. The term does not include
4		replacement automation and robotic equipment that does not upgrade or
5		advance a manufacturing process.
6		d. "Primary sector business" has the meaning provided in section 1-01-49.
7		e. "Purchase" includes manufacturing machinery and equipment acquired under a
8		capital lease only for the taxable year in which the lease is executed. A capital
9		lease is a lease which meets generally accepted accounting principles. The
10		qualifying costs of the equipment acquired under a capital lease is the fair market
11		value of the equipment at the inception of the lease.
12	<u>3.</u>	The taxpayer shall claim the total credit amount for the taxable year in which the
13		manufacturing machinery and equipment are purchased. The credit under this section
14		may not exceed the taxpayer's liability as determined under this chapter for any
15		taxable year.
16	<u>4.</u>	If the amount of the credit determined under this section exceeds the liability for tax
17		under this chapter, the excess may be carried forward to each of the next five
18		succeeding taxable years.
19	<u>5.</u>	The aggregate amount of credits allowed each calendar year under this section may
20		not exceed one million dollars. However, if the maximum amount of allowed credits are
21		not claimed in any calendar year, any remaining unclaimed credits may be carried
22		forward and made available in the next succeeding calendar year. If the aggregate
23		amount of credits claimed under this section exceeds the amount available in a
24		calendar year, the tax commissioner shall prorate the credits among the claimants.
25	<u>6.</u>	If a taxpayer entitled to the credit provided by this section is a member of a group of
26		corporations filing a North Dakota consolidated tax return using the combined
27		reporting method, the credit may be claimed against the aggregate North Dakota tax
28		liability of all the corporations included in the North Dakota consolidated return.
29	<u>7.</u>	A passthrough entity entitled to the credit under this section must be considered to be
30		the taxpayer for purposes of calculating the credit. The amount of the allowable credit
31		must be determined at the passthrough entity level. The total credit determined at the

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1		entity level must be passed through to the partners, shareholders, or members in
2		proportion to their respective interests in the passthrough entity. An individual taxpayer
3		may take the credit passed through under this subsection against the individual's state
4		income tax liability under section 57-38-30.3.
5	<u>8.</u>	The department of commerce shall provide the tax commissioner the name, address,
6		and federal identification number or social security number of the taxpayer approved
7		as qualifying for the credit under this section, and a list of those items approved as a
8		qualified expenditure by the department. The taxpayer claiming the credit shall file with
9		the taxpayer's return, on forms prescribed by the tax commissioner, the following
10		information:
11		a. The name, address, and federal identification number or social security number
12		of the taxpayer that made the purchase; and
13		b. An itemization of:
14		(1) Each item of machinery or equipment purchased for automation, including a
15		description of the equipment or system being upgraded or advanced, and
16		an explanation of how the upgrade or advancement will improve job quality
17		or increase productivity;
18		(2) The amount paid for each item of machinery or equipment if the amount
19		paid for the machinery or equipment is being used as a basis for calculating
20		the credit; and
21		(3) The date on which payment for the purchase was made.
22	<u>9.</u>	Within one year after claiming a tax credit under this section, a taxpayer shall file with
23		the tax commissioner a report that documents the improved job quality or increased
24		productivity required under this section and any other information the tax
25		commissioner determines is necessary for administration of this section. Failure to
26		document the improved job quality or increased productivity requirements is cause to
27		disallow the credit attributable to the noncompliance. The tax commissioner shall
28		provide notice of the disallowed credit to the taxpayer. Within ninety days after the
29		date of the notice, the taxpayer shall file an amended return for each taxable year in
30		which the disallowed credit reduced the taxpayer's tax liability and pay the amount
31		due. If an amended return is not filed timely, the tax commissioner shall disallow the

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1		credit and assess any tax due. An assessment of tax made under this subsection is
2		final and irrevocably fixed.
3	<u>10.</u>	Notwithstanding the time limitations contained in section 57-38-38, this section does
4		not prohibit the tax commissioner from conducting an examination of the credit
5		claimed and assessing additional tax due under section 57-38-38.
6	SEC	CTION 2. A new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota
7	Century	Code is created and enacted as follows:
8		Twenty-first century manufacturing workforce incentive under section 1 of this Act
9		(effective for the first four taxable years beginning after December 31, 2018).
10	SEC	CTION 3. EFFECTIVE DATE - EXPIRATION DATE. This Act is effective for the first four
11	taxable	years beginning after December 31, 2018, and is ineffective after that date.