19.0389.04000

Sixty-sixth Legislative Assembly of North Dakota

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

Introduced by

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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.

## 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 A taxpayer that is a primary sector business is allowed a nonrefundable credit against 10 the tax imposed under section 57-38-30 or 57-38-30.3 for purchases of manufacturing 11 machinery and equipment for the purpose of automating manufacturing processes in 12 this state to improve job quality or increase productivity. The amount of the credit 13 under this section is twenty percent of the cost of the manufacturing machinery and 14 equipment purchased in the taxable year. Qualified expenditures under this section 15 may not be used in the calculation of any other income tax deduction or credit allowed 16 under this chapter.
  - 2. For purposes of this section:
    - a. "Improved job quality" means a five percent increase in average wages or a five percent improvement in workplace safety as documented through participation in workforce safety and insurance safety incentive programs.
      - b. "Increased productivity" means no less than a five percent increase in output or a
        five percent increase in the number of units produced per automated line per time
        period.

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1 "Manufacturing machinery and equipment for the purpose of automating 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 <u>d.</u> "Primary sector business" has the meaning provided in section 1-01-49. 7 "Purchase" includes manufacturing machinery and equipment acquired under a e. 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 If the amount of the credit determined under this section exceeds the liability for tax <u>4.</u> 17 under this chapter, the excess may be carried forward to each of the next five 18 succeeding taxable years. 19 The aggregate amount of credits allowed each calendar year under this section may 5. 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 If a taxpayer entitled to the credit provided by this section is a member of a group of 6. 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 A passthrough entity entitled to the credit under this section must be considered to be

the taxpayer for purposes of calculating the credit. The amount of the allowable credit

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 gualified 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 The name, address, and federal identification number or social security number a. 12 of the taxpayer that made the purchase; and 13 An itemization of: b. 14 Each item of machinery or equipment purchased for automation, including a (1) 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 9. 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

which the disallowed credit reduced the taxpayer's tax liability and pay the amount

due. If an amended return is not filed timely, the tax commissioner shall disallow the

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	SECTION 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.