

2000 Income tax update

News and developments for tax practitioners
Year-end edition

October 2000

*A publication
of the
Income and Oil
Taxes Division*

*Rick Clayburgh
Tax Commissioner*

Direct deposit of refunds is easy, fast, and secure. . .give it a try!



A refund direct deposit option is available to individuals who use Form 37-S (Short form). Over 30,000 individuals elected to have their refunds direct deposited for 1999. To elect this option, all an individual has to do is complete line 13 on Form 37-S. In addition to its convenience, direct deposit offers taxpayers a faster and more secure way to get their refunds.

It is recommended that taxpayers contact their bank or other financial institution to make sure it will accept direct deposits, and to obtain the routing and account numbers to enter on line 13 of Form 37-S. If an incorrect routing or account number is

entered on the return, the direct deposit transaction cannot be completed and the refund must be issued by paper check. Be careful not to use the numbers off of a deposit slip for the routing or account number.

If you are a tax preparer, be sure to inform your clients who make the direct deposit election that they will not receive a separate notification from our office of when the direct deposit is made. Also inform them to check their account or contact their financial institution to find out if their refund has been deposited before contacting our office.

Thousands of individuals are e-filing their state income tax returns



The 1999 tax year was the second year of North Dakota's participation in the IRS's Federal/State Electronic Tax Filing Program. Thousands of individual income tax returns—over 28,500—were filed under this program for 1999, which is more than double the number of returns e-filed for 1998. This growth in the program's use is very encouraging, and it is expected that the number of e-filed returns will double again to around 56,000 for the 2000 tax year.

Eligibility for this filing option has been expanded for the 2000 tax year to include the use of Schedule 4 (credit for income tax paid to another state). If applicable, copies of Schedule 4 and the other state's income tax return (in digital or paper form) must be kept on file by the electronic return origina-

tor (ERO) along with any Form W-2s and the Form 37-SEF.

To participate in the Federal/State Electronic Tax Filing Program, you must be an Authorized IRS *e-file* Provider, and you must submit an application, Form ND-8633, to the Electronic Filing Coordinator, North Dakota Office of State Tax Commissioner—see address on page 4. For more information, go to our Web site at www.state.nd.us/taxdpt and click on **Electronic Filing > Individual Income Tax**.

The number of software developers supporting North Dakota in their Federal/State electronic filing software also continues to grow, offering more choices for tax preparers. Following is a list of the software de-

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2000 tax forms on Web site

The 2000 state income tax forms are ready and may be downloaded from our Web site at www.state.nd.us/taxdpt. You may also use the 2000 order form enclosed with this newsletter to order the forms needed.

Please order only what you will need, and take note of the limits on certain forms. We appreciate your help in this regard which

helps us keep our printing costs to a minimum.

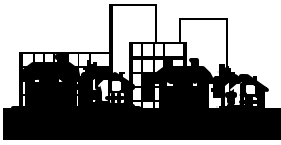
Orders will be filled starting December 4, 2000. Please allow a reasonable amount of time to fill your order. To check on your order, call 701-328-3017. In North Dakota, call 1-800-638-2901 (*wait for the receptionist and ask for extension 8-3017*).



Download forms from our Web site at www.state.nd.us/taxdpt

First zone project approved, several more in progress

Activity increasing in five established North Dakota renaissance zones



North Dakota Renaissance Zones

Established zones

Five North Dakota cities have now established a renaissance zone under the Renaissance Zone Act (Act) enacted by the 1999 North Dakota Legislature, and a number of projects are in the works in several of them. The established zones are in the cities of Fargo, Casselton, West Fargo, Valley City, and Jamestown.

Persons who are interested in finding out if specific properties are located in an established zone, or who are looking for information on the tax incentives and the procedures for applying for them, should contact the local zone authority in the city in which the renaissance zone is located. The North Dakota Division of Community Services (DCS) or the city governing body can provide contact information for the local zone authority.

Zone project

It is important to keep in mind that, except for the credit for investment in a renaissance fund corporation, eligibility for any of the tax incentives under the Act is dependent on having a qualified zone project. In general, a qualified zone project is a transaction in an established zone that is approved by both the local zone authority and the North Dakota Division of Community Services. To qualify, a project must meet the criteria set forth in the city's renaissance zone development plan that was approved by DCS.

In general, a transaction that is eligible for consideration as a zone project will involve the purchase, lease, or improvement of residential or commercial buildings. The eligible transaction or transactions are different for each

tax incentive under the Act, so it is very important to understand which transaction type(s) are required to qualify for a given tax incentive.

Business vs. investment

The Act provides for two separate income exemptions (or deductions). One exemption is allowed for purchasing, leasing, or making a qualified improvement to a building used in a business. The other exemption is allowed for purchasing a residential or commercial building for investment purposes. Because the type of eligible transaction(s) are different for each exemption, it is very important to know whether the building is used in a business or is used for investment.

A building is used in a business if it is used in an occupation, trade, profession, or commercial or mercantile enterprise. A building is purchased for investment purposes if it is not part of or used in the taxpayer's business. Depending on the facts and circumstances, this distinction may not always be clear. If in doubt as to whether a transaction qualifies for the business or investment income exemption, taxpayers are advised to submit a written request for an opinion to the Office of State Tax Commissioner prior to the transaction.

Improvements

One question that has come up often concerns whether an improvement (or renovation or rehabilitation) of an existing building in a zone qualifies for any of the tax incentives under the Act. In general, an improvement to an existing building is a qualifying transac-

tion for purposes of the credit for preserving or renovating historic property and the business income exemption.

An improvement to an existing building in a zone is *not* a qualifying transaction for purposes of the credit for purchasing a single-family residence, the income exemption for purchasing residential or commercial property for investment, or any of the property tax incentives.

New Schedule RZ

For the 2000 tax year, a new form called Schedule RZ will be required of taxpayers claiming any of the income tax and financial institution tax exemptions or credits. The new 3-page form must be completed and attached to the North Dakota tax return.

The new form, still in development at printing time, is expected to be available in mid- to late December. Because few taxpayers will need Schedule RZ for the 2000 tax year, printing will be limited, and the form will not be available for ordering on the income tax order form.

When available, the new Schedule RZ may be downloaded from our Web site at www.state.nd.us/taxdpt, or a printed copy may be obtained by contacting the Office of State Tax Commissioner—see page 4.

Income tax update is a publication of the Income and Oil Taxes Division, North Dakota Office of State Tax Commissioner, State Capitol, 600 East Boulevard Avenue, Bismarck, ND 58505-0599. It is published annually in October and after each legislative session in June. It is intended for tax professionals and other persons interested in developments, updates, and other information about North Dakota's income and financial institution tax laws, rules, and administrative policies. It is mailed free-of-charge to all persons on the Division's practitioners' mailing list. To get on the list, call (701) 328-3450 or toll free in North Dakota 1-800-638-2901; write to the above address; or go to our Web site at www.state.nd.us/taxdpt and click on Feedback.

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velopers that will support North Dakota for 2000:

- **CCH Prosystems**
555 N Woodlawn, Bldg 4
Wichita, KS 67208-3646
1-800-739-9998
- **Creative Solutions**
7233 Newman Blvd
Dexter, MI 48130
1-800-968-8900
- **Drake Enterprises, Inc.**
106 Palmer St
Franklin, NC 28734
1-800-890-9500
- **H.D. Vest Inc.**
6333 N State Hwy 161, 4th Flr
Irving, TX 75038
1-800-821-8254
- **Intuit, Inc.**
6220 Greenwich Dr
San Diego, CA 92122
1-800-934-1040
- **Jackson Hewitt, Inc.**
300 Centre Pointe Dr
Virginia Beach, VA 23462
1-800-475-2904
- **OrrTax**
13208 NE 20th St
Bellevue, WA 98005
1-800-377-3337
- **Tax And Accounting Software Corporation**
6914 S Yorktown Ave
Tulsa, OK 74136
1-800-998-9990
- **TaxWorks by Laser Systems**
350 N 400 West
PO Box 407
Kaysville, UT 84037
1-800-230-2322
- **Universal Tax Systems**
6 Mathis Dr NW
Rome, GA 30164
1-800-755-9473
- **Xpress Software**
203 Bradley Dr
West Columbia, SC 29170
1-800-285-1065

Our electronic filing coordinators are:

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SBDC workshop offered to small business persons

The North Dakota Small Business Development Center is providing a one-day workshop at several locations across North Dakota during the months of October, November, and December of 2000. The workshop, entitled *Tips For Improving Your 2000 Tax Returns*, provides training and assistance to small business owners and office personnel in the following areas:

- IRS recordkeeping requirements.
- Federal and state employment tax requirements.
- Sales and use tax requirements.
- Federal income tax.

- Risk management and safety incentives.
- State labor law.

Presenters include representatives from the IRS, Social Security Administration, Job Service North Dakota, ND Workers' Compensation Bureau, ND Department of Labor, and the ND Office of State Tax Commissioner.

For more information and to register, call the North Dakota Small Business Development Center at 701-328-5865 or 800-445-7232, or e-mail them at ndsdbc@sage.und.nodak.edu. Their Web site address is <http://bpa.und.nodak.edu/sbdc/>.



November workshops

- 14 **Jamestown Dakota Inn**
Hwy 281 S & I-94
- 15 **Fargo Skills & Technology Center**
1305 19th Ave N
- 16 **Grand Forks Bremer Bank**
3100 S Columbia Road

December workshops

- 5 **Minot Ramada Inn**
2315 N Broadway
- 6 **Devils Lake Lake Region State College**
1801 College Dr N
- 7 **Grafton Walsh County Courthouse**
600 Cooper Ave

Watch out for these e-filing errors

The following common errors were made by taxpayers and tax preparers who filed North Dakota individual income tax returns under the Federal/State Electronic Tax Filing Program:

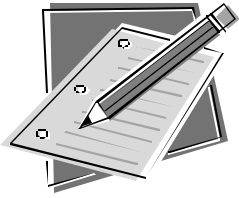
- Mailing in a paper return in addition to electronically filing the return.
- Failing to check if the address on the return is correct. While this may be a mundane task that is easily overlooked or ignored, it is an important one. An incorrect address delays the processing of the return, including the issuance of a refund that may be due the taxpayer.
- Failing to enter a spouse's social security number on the return, especially when filing separate North Dakota returns.

- Mailing in a Form 37-SV when the North Dakota return is rejected during the electronic filing process. See the article under **Practical stuff...** on page 4 of this newsletter for an expanded discussion of this problem.

All of these errors delay the processing of the return and create additional work for our office. We would appreciate your review of your tax return preparation processes to help prevent these errors.



Practical stuff . . .



Individual booklet changes for 2000

The instructions to the individual forms underwent a face-lift for 2000, moving from a two-column to a three-column layout. Following are other changes of special note.

“New” Schedule NR

Schedule NR—a schedule that all nonresident filers must use—has been around since 1989. However, it has never “looked” like a formal schedule in the booklet, having been confined to the newsprint-quality pages along with the instructions. Also, only one Schedule NR has been provided in the booklet. This year’s booklet will contain two Schedule NR forms printed on the same quality paper as the other forms and perforated for easy removal.

New reciprocity filing procedure

A new procedure for filing a North Dakota income tax return has been established for Minnesota and Montana residents covered by the reciprocity agreements with North Dakota. The streamlined procedure eliminates the requirement to complete and attach Schedule NR and the Adjustment Schedule (Form 37-S), but only for those Minnesota and Montana residents whose *entire* gross income from North Dakota sources qualifies for reciprocity treatment. If they have gross income from North Dakota sources not covered by reciprocity, they must file using the filing proce-

dures prescribed for nonresidents in general. The new procedure may be found under **Income tax reciprocity: Minnesota and Montana** on page 3 of the booklet.

Worksheet for Form 37-S filers using Form 1040

For Form 37-S filers who use Federal Form 1040, a worksheet is provided in the instructions for calculating the federal income tax liability to be entered on line 1, Form 37-S. A number of changes were made to the worksheet to simplify it for the majority of the filers who need to use it. One change involved two of the federal taxes that must be included in the calculation—namely, the tax from Federal Form 4970 and the Section 72(m)(5) excess benefits tax. Both were removed from the main flow of the worksheet because they do not apply to most filers. A footnote was added to the worksheet explaining that these federal taxes still must be accounted for by those filers who have them—the taxes must be included in the total amount shown on line E of the worksheet.

Determining domicile

Our office receives many questions on residency. North Dakota income tax law defines a resident to be (1) an individual who is domiciled in North Dakota or (2) an individual who is not domiciled in North Dakota but maintains a permanent place of abode and spends more than seven months of the tax year in North Dakota. To help individuals determine whether or

not they are considered residents of North Dakota, the general instructions covering filing requirements have been revised to include a general explanation of domicile and the statutory 7-month rule. See **Definition of resident** on page 2 of the booklet.

Improper use of Form 37-SV

The Tax Department has received Form 37-SV (Electronic return payment voucher) from a number of taxpayers who should not be using it—namely, individuals filing their returns on paper. Form 37-SV is to be used *only if* there is a tax due on a Form 37-S (Short form) that is electronically filed through the Federal/State Electronic Tax Filing Program. Form 37-SV *must not* be used in any other situation.

Tax preparers are asked to review their tax return preparation processes to ensure that North Dakota Form 37-SV is used only if Form 37-S is filed electronically through the Federal/State Electronic Filing Program. Also note that Form 37-SV must not be used when the North Dakota return is rejected during the electronic filing process. The tax preparer will not become aware of the rejection until the tax preparer receives notification of acceptance from the IRS. If Form 37-SV is given to a client before receipt of the IRS notice, make sure the client does not use it if the North Dakota return is rejected and must be filed on paper.

Where to reach us . . .

Phone numbers

General toll free (<i>within North Dakota</i>)	1-800-638-2901
Individual income tax	701-328-3450
Income tax withholding	701-328-3125
Withholding toll free	1-877-638-2966
Corporation income tax	701-328-2046
Sales and special taxes	701-328-3470
<i>Includes sales, use, motor fuels, estate, city lodging, highway contract privilege, and music composition performing rights taxes.</i>	
Oil and gas taxes	701-328-2014
Property tax	701-328-3127
Commissioner’s office (receptionist)	701-328-2770
Speech/hearing impaired	Call Relay ND at 1-800-366-6888 (ask for 1-800-638-2901)

Address

Office of State Tax Commissioner
State Capitol
600 East Boulevard Avenue
Bismarck, ND 58505-0599

Web site

www.state.nd.us/taxdpt

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taxinfo@state.nd.us

Comments?

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