

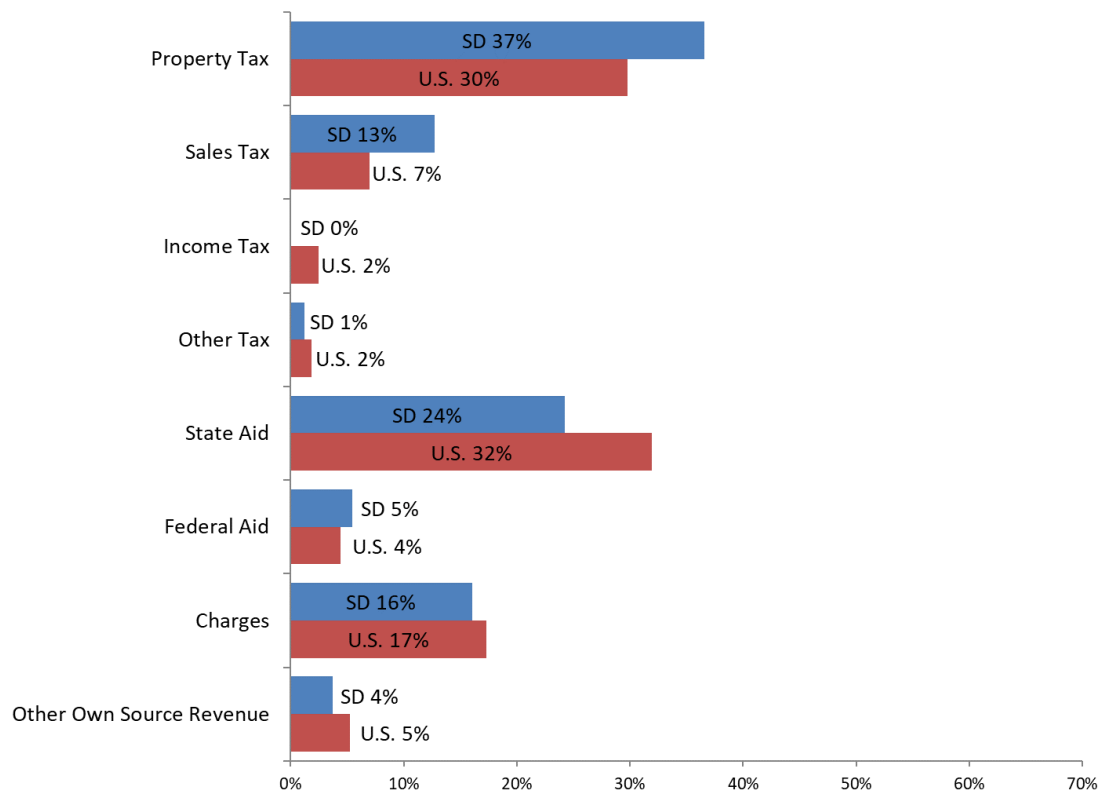
South Dakota

Highlights

South Dakota is one of seven states with no state individual income tax, and one of four states with no general corporate income tax (Federation of Tax Administrators 2017a, 2017b). Because of the state government's limited resources, the state provides relatively low amounts of state aid (almost all for education), leaving local governments, especially counties, to rely heavily on the property tax (figure SD-1).

The state taxes agricultural property at a preferentially low rate through two mechanisms. First, agricultural property is given a favorably low value for tax purposes though the system of productivity value, a type of use value. Second, school district property tax rates for agriculture are lower than for other types of property. Together, these provisions result in a lower effective tax rate for agriculture than for owner-occupied homes or commercial, utility, and non-owner-occupied residential property (South Dakota Department of Revenue 2017).

Figure SD-1
Sources of Local General Revenue, South Dakota and U.S., 2014



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

South Dakota's overall state and local tax burden is quite low relative to that of other states. Even though its property tax as a share of state-local general revenue is higher than the U.S. average, its property tax burdens per capita and relative to personal income are lower than national averages. The effective property tax rate on owner-occupied housing is above the national average (table SD-1).

Table SD-1
Selected South Dakota Property Tax Statistics, 2014¹

	South Dakota	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,303	\$1,464	28
Property tax percentage of personal income	2.8%	3.2%	26
Total property tax as percentage of state-local revenue	17.3%	16.9%	16
Median owner-occupied home value ²	\$140,500	\$178,600	36
Median real estate taxes paid for owner-occupied home ²	\$1,879	\$2,149	25
Effective tax rate, median owner-occupied home ³	1.3%	1.2%	16

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

County directors of equalization assess property under regulations set by the state Department of Revenue (table SD-2). The Department of Revenue directly assesses some property of utilities, railroads, and pipelines. All real property is to be revalued annually.

Property (except agricultural land) is assessed at 85 percent of market value. Since 2011, agricultural land has been assessed according to its "productivity value" (use value). Property owned by charitable, benevolent, or religious societies; educational institutions; nonprofit health care organizations; and agricultural and horticultural societies is exempt as is most personal property.

Although South Dakota's constitution authorizes a state property tax under certain conditions, only local governments actually levy property taxes. Counties, municipalities, townships, and special districts set their own rates; the same rate applies to all classes of property. A different system applies to school districts.

Local school districts account for about 56 percent of property tax collections statewide. For school funding purposes, property is classified as agricultural; owner-occupied single-family dwelling; or other (commercial and industrial). The legislature sets statewide school district property tax rates (uniform tax rates) annually for each classification; in recent years, the rate for commercial and industrial property has been roughly five times the rate for agricultural property and twice that for owner-occupied residences (South Dakota Department of Revenue 2017).

Limits on Property Taxation

State law establishes mill levy limits, but as a practical matter they are not constraining. Except for school districts, annual growth in local jurisdictions' property tax revenue is limited to the lesser of 3 percent or the rate of inflation as measured by the preceding year's consumer price index (CPI) with adjustments for property improvements, new construction, reclassifications, and annexations.

School district property tax rates for the general fund may not exceed the statewide rates discussed above. According to statute, the "per-student allocation" (state aid plus property tax generated with the statewide rates) is to grow by 3 percent or the rate of inflation, whichever is less. In some years, school district property tax rates for the Capital Outlay Fund and the Pension Fund have also been limited.

Local governing boards for counties, municipalities, and townships may exceed these growth limits by an affirmative vote of at least two-thirds of the governing board members. Boards must then announce the "opt-out" decision in local newspapers or directly by mail. A board can refer its decision to voters directly; if it does not, citizens can petition for a vote. School boards may exceed the statewide rates for each classification by following similar procedures.

Property Tax Relief and Incentives

A property tax circuit breaker program provides relief to owners of single-family residences if they are at least 66 years old or disabled and have owned the property for at least three years or lived in the state for at least five years.

The homestead exemption program delays payment of property taxes until the property is sold for homeowners who meet age, ownership, residency, and income restrictions. An assessment freeze program applies to elderly and disabled homeowners who meet income limits and whose assessments fall below a certain limit. Other programs provide income-graduated property tax reductions for paraplegics, full exemptions for paraplegic veterans, and limited exemptions for other disabled veterans. County commissioners may freeze taxes levied for up to five years for property purchased by a beginning farmer.

New commercial or industrial structures (including apartments) worth more than \$30,000 can be afforded property tax reductions for up to five years at the discretion of the county or municipality in which they are located, as can "additions, renovation, or reconstruction" within urban renewal areas. Part of the value of property owned by a local industrial development corporation is exempt from property taxation, as is part of the value of a renewable-energy facility. Increased value due to

restoration of historical property is not taxed for eight years after restoration. South Dakota also uses tax increment finance (and the districts are called tax incremental districts).

Table SD-2
South Dakota Property Tax Features, 2015

Feature	South Dakota	Count for 50 states plus DC
Statewide Classification of Real Property	No	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

In the late 1970s, South Dakota exempted from taxation all personal property except for some centrally assessed utility property. After a major reform effort in the mid- to late 1970s, assessment-sales ratios rose dramatically. Additional reform in 1989 set the standard for assessment-sales ratios at 85 to 100 percent. Since that time, assessments have tended to be closer to actual market values (Ring 2006).

Over the past four decades, property taxes have generally risen in real terms but fallen as a percentage of state personal incomes. Individual tax bills were frozen in 1990 and 1991, after which they rose dramatically as local governments recovered from the freeze and school districts responded to an odd school aid formula that created a strong incentive to raise property taxes (Ring 1991; S. D. Department of Revenue 2006). In 1994, a ballot initiative that would have drastically cut property taxes nearly passed, prompting state officials to provide significant property tax relief. Taxes for agricultural and owner-occupied properties were reduced by 30 percent in increments between 1996 and 2001, with the state reimbursing local governments for lost revenue (S.D. Department of Revenue 2006). The state also enacted the foundation school aid formula that is still in place and imposed the revenue growth limits (3 percent or the rate of inflation, whichever is less) discussed above.

Despite these restrictions, real property taxes have continued to rise because of increases in the tax base (allowed for property improvements, new construction, etc.) and because many local governments chose to “opt out” of state-imposed limits. On average, 40 percent of school districts opted out during each of the school years 2004 to 2015; over two-thirds of districts opted out for at least one year during that period (S.D. Department of Education 2015).

Recent Developments

The 2015 South Dakota Legislature passed a road funding package that (in conjunction with increases in the state gasoline tax and other state and local vehicle excise taxes) allows counties and townships to raise property tax rates in excess of the growth limits discussed above without going through the usual opt-out procedure (2015 Session, SB 1).

Local school funding continues to be an issue that is likely to affect property taxes, since South Dakota depends more heavily on local funding sources than do most states. Gov. Dugaard appointed a South Dakota Blue Ribbon Task Force on Teachers and Students, which released 29 recommendations in November 2015, including a new school funding formula, higher pay for teachers, caps on school district reserve funds, and additional funding for learning innovation including virtual education (Blue Ribbon Task Force on Teachers and Students 2015).

In 2016, the state legislature increased the sales tax rate from 4 percent to 4.5 percent in order to provide additional money for teacher salaries and to provide additional property tax relief (National Conference of State Legislatures 2016).

Resources

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