

# Special Taxes

*Property and Special Taxes Division - Michael Kenyon, Director*

## Division Overview

The Division of Special Taxes has three main functions: 1) administering taxes on tobacco, alcohol, banks, estates, minerals, and several small industries; 2) regulating the tobacco and alcohol industries; and 3) administering the state's sales and property tax refund program for the elderly and disabled. Within the last 10 years, revenues from the division have ranged from a high of \$112.6 million in 1999 to \$97.1 million in 2002, the year after voters repealed the inheritance tax. In fiscal year 2006, revenues in this division showed an increase of \$11,343,799 from 2005 with total collections of \$109,202,262.

## Alcohol and Tobacco Regulation

### Alcohol Regulation

The State does not conduct any alcohol beverage compliance checks to determine whether businesses will sell alcohol to people under the legal age. However, the State does receive this information from city and county law enforcement officers when they conduct their checks. In 2005, five cities (Mitchell, Rapid City, Sioux Falls, Spearfish, and Watertown) conducted compliance checks. In addition, three counties (Davison, Lincoln, and Minnehaha) conducted their own compliance checks. The following chart indicates the number of compliance checks conducted and the failure rate.

### *Alcohol Beverage Stings: 2002-2006*

Fiscal Year	Number of Checks	Number of Illegal Sales	Failure Rates
2002	153	33	21.6%
2003	340	51	15.0%
2004	271	47	17.3%
2005	429	56	13.1%
2006	585	73	12.5%
<b>TOTAL</b>	<b>1,778</b>	<b>260</b>	<b>N/A</b>

## Tobacco Regulation

Federal law requires anyone shipping cigarettes into South Dakota without South Dakota's tax stamp to notify the Department of Revenue and Regulation. In fiscal year 2006, the department made 325 assessments totaling more than \$50,000 against South Dakotans who purchased untaxed cigarettes. Over 70% of the assessments have been collected, with nearly \$6,000 of payments made through an amnesty program.

In addition to assessing consumers of untaxed cigarettes, the department has audited 25 tobacco wholesalers and distributors, and 365 tobacco retailers. These audits ensure the proper amount of tax is being paid, and that only legal cigarettes are sold within the state.

## Relief Programs

Seven programs are available to provide sales tax or property tax relief to eligible South Dakotans. The Special Taxes Division administers the sales and property tax refund program for low income senior and disabled South Dakotans. The Department of Social Services administers South Dakota's sales tax on food refund program. The remaining five programs are administered by the counties. Details on some of these programs are shown below.

**The sales and property tax refund program** provides a cash refund to elderly and disabled South Dakotans. In fiscal year 2006, 3,251 elderly and disabled individuals and households received refunds totaling \$556,520. Refund amounts ranged from \$46 up to \$581.

**The assessment freeze for the elderly and disabled program** reduces the assessed value of the owner's property for tax purposes. Almost 3,900 South Dakotans received the benefit of this program in 2006. The average benefit was a reduction of over \$23,350 to the assessed value of the elderly or disabled person's home.

**The paraplegic and paraplegic veterans programs** provide a partial or complete exemption of property taxes. For paraplegics, the benefit ranges from a 25% to 100% reduction of their property taxes, depending on their income. Paraplegic veterans receive a 100% exemption for their home, regardless of income. In 2006, 93 veterans received exemptions totaling \$10,358,910.

**The property tax homestead exemption** delays the payment of property taxes. The taxes become a lien upon the property and must be repaid, with interest, when the property is sold. The municipal property tax reduction program is a voluntary program for cities; currently, only Rapid City participates in the program. The division does not collect statistics for either of these programs.

# Property Taxes

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Property taxes are the primary source of funding for school systems, counties, municipalities and other units of local government. The state does not collect or spend any property tax money. Each county administers its own property tax system; the department's authority is limited to assisting local governments in making property tax assessments that are fair and in compliance with the law.

## Who pays property taxes and where does the money go?

In 2006, South Dakota property owners paid more than \$803 million to fund local governments and provide K-12 education for the state's children. The following two tables show the portion of the total taxes paid by each classification of property, and where the money collected is spent.

### Property Taxes: Who Pays

Year Taxes Are Payable	Agricultural*	% of Total	Owner-Occupied	% of Total	Commercial	% of Total	Utilities	% of Total	Special Assessments	% of Total	TOTAL
1996	\$177,155,703	29.78	\$227,989,164	38.33	\$158,910,064	26.72	\$24,799,007	4.17	\$5,948,428	1.00	\$594,802,366
1997**	146,728,901	26.55	191,658,393	34.68	176,930,052	32.02	30,657,682	5.55	6,597,665	1.19	552,572,695
1998	154,812,969	26.61	205,112,642	35.26	186,243,621	32.01	28,209,233	4.85	7,378,706	1.27	581,757,172
1999	154,433,143	26.10	203,873,029	34.46	195,619,643	33.06	29,712,277	5.02	8,011,655	1.35	591,649,747
2000	159,507,395	25.61	215,800,767	34.65	207,037,885	33.24	32,359,737	5.20	8,165,304	1.31	622,871,087
2001	151,921,309	25.04	212,091,514	34.96	204,708,863	33.74	29,235,927	4.82	8,783,550	1.45	606,741,163
2002	168,958,956	25.33	243,144,972	36.45	215,460,653	32.30	30,814,549	4.62	8,774,866	1.32	667,153,996
2003	176,354,349	25.24	258,757,664	37.03	222,277,922	31.81	31,052,406	4.44	10,279,053	1.47	698,721,394
2004	183,027,601	25.24	273,180,527	37.67	229,836,765	31.69	30,282,567	4.18	8,835,378	1.22	725,162,838
2005	190,743,858	25.25	289,985,539	38.39	236,891,146	31.36	28,705,633	3.65	10,120,766	1.34	756,716,943
2006	202,173,330	25.20	309,831,254	38.62	252,523,983	31.47	27,191,751	3.29	11,422,093	1.42	803,142,410

\* Agricultural property taxes include NA-Z taxes

\*\* In 1997, the State directly paid \$80,408,754 to replace property taxes. In subsequent years, this benefit was provided by lowering the property tax rate paid by owners of these property classifications.

### Property Taxes: Where the Money Goes

For Taxes Payable in	County	% of Total	Municipalities	% of Total	Schools	% of Total	Townships	% of Total	Special Assessments	% of Total	TOTAL
Pay 1996	127,707,478	21.47	59,501,041	10.00	393,055,072	66.08	8,590,347	1.44	5,948,428	1.00	594,802,366
Pay 1997	312,306,002	23.94	63,030,246	11.41	341,703,332	61.84	8,935,430	1.62	6,597,665	1.19	552,572,675
Pay 1998	138,413,304	23.79	66,159,294	11.37	359,703,612	61.83	10,102,257	1.74	7,378,706	1.27	581,757,172
Pay 1999	142,493,545	24.08	69,357,020	11.72	361,591,363	61.12	10,196,165	1.72	8,011,655	1.35	591,649,748
Pay 2000	147,698,120	23.71	72,234,893	11.60	384,503,303	61.73	10,269,391	1.65	8,165,304	1.31	622,871,087
Pay 2001	154,771,889	25.51	76,628,850	12.63	356,034,460	58.68	10,522,342	1.73	8,783,550	1.45	606,741,163
Pay 2002	165,080,098	24.74	81,296,731	12.19	400,493,843	60.03	11,508,383	1.72	8,774,866	1.32	667,153,996
Pay 2003	172,099,505	24.63	87,349,216	12.50	417,257,623	59.72	11,735,923	1.68	10,279,053	1.47	698,721,394
Pay 2004	182,029,686	25.10	92,005,243	12.69	430,465,020	59.36	11,827,439	1.63	8,835,378	1.22	725,162,838
Pay 2005	190,946,685	25.23	96,379,649	12.74	447,203,111	59.10	12,066,658	1.59	10,120,766	1.34	756,716,943
Pay 2006	201,763,368	25.12	102,625,076	12.78	475,005,462	59.14	12,326,339	1.53	11,422,093	1.42	803,142,410

## Taxable Valuations by County

The following chart indicates the amount of taxable value in each of South Dakota's 66 counties, broken out by the class of property. The "Other" category includes residential property not occupied by the owner, commercial property and utility property.

### Taxable Valuations: 2006 Taxes Payable 2007

County	Ag Real Valuation	Owner Occupied Valuation	Other Valuation	Total Valuation
Aurora	\$272,949,248	\$29,499,070	\$20,970,585	\$323,418,903
Beadle	423,708,530	261,435,699	232,355,364	917,499,593
Bennett	96,863,028	16,181,669	9,542,626	122,587,323
Bon Homme	230,017,902	70,338,163	34,051,437	334,407,502
Brookings	393,818,305	636,153,600	408,749,503	1,438,721,408
Brown	641,640,765	829,633,954	503,015,330	1,974,290,049
Brule	216,231,563	68,487,171	51,743,037	336,461,771
Buffalo	70,589,065	1,180,927	4,877,542	76,647,534
Butte	139,479,310	184,743,763	107,786,243	432,009,316
Campbell	131,922,050	17,753,784	7,691,441	157,367,275
Charles Mix	491,322,909	90,641,107	62,951,949	644,915,965
Clark	280,922,291	31,396,131	56,831,013	369,149,435
Clay	255,002,583	214,349,913	135,735,295	605,087,791
Codington	227,382,794	741,643,048	436,950,529	1,405,976,371
Corson	114,262,077	9,283,375	17,584,045	141,129,497
Custer	80,649,532	262,622,348	217,098,903	560,370,783
Davison	153,237,715	433,094,930	279,229,074	865,561,719
Day	250,253,794	85,592,283	87,688,492	423,534,569
Deuel	257,499,518	61,352,143	58,029,363	376,881,024
Dewey	88,444,971	9,603,967	10,050,786	108,099,724
Douglas	184,750,149	36,111,846	17,167,167	238,029,162
Edmunds	286,300,431	62,487,370	58,193,235	406,981,036
Fall River	95,938,660	130,294,005	122,219,441	348,452,106
Faulk	244,383,933	18,774,030	9,077,386	272,235,349
Grant	189,908,341	126,498,564	162,551,095	478,958,000
Gregory	272,466,435	42,976,150	22,129,989	337,572,574
Haakon	204,992,138	15,911,747	17,200,915	238,104,800
Hamlin	239,518,156	88,692,199	74,171,382	402,381,737
Hand	380,833,986	38,231,565	30,039,783	449,105,334
Hanson	218,474,388	47,354,853	19,322,213	285,151,454
Harding	168,527,410	10,820,590	33,486,056	212,834,056
Hughes	123,111,865	470,290,513	251,143,367	844,545,745
Hutchinson	506,007,144	95,590,908	50,668,876	652,266,928
Hyde	183,928,562	16,453,224	27,387,170	227,768,956
Jackson	90,590,621	10,926,051	13,633,641	115,150,313
Jerauld	167,747,009	15,526,847	16,165,771	199,439,627
Jones	140,759,660	9,202,051	9,991,330	159,953,041
Kingsbury	270,536,022	63,285,869	49,377,997	383,199,888
Lake	305,628,765	255,624,865	163,695,163	724,948,793
Lawrence	23,688,060	728,242,113	614,832,337	1,366,762,510
Lincoln	469,288,150	1,551,059,855	622,306,986	2,642,654,991
Lyman	302,220,711	32,608,646	32,041,532	366,870,889
Marshall	268,454,464	66,621,347	45,792,941	380,868,752
McCook	381,314,670	105,854,679	39,920,806	527,090,155
McPherson	241,250,601	26,980,183	37,407,560	305,638,344
Meade	224,627,196	708,207,322	353,983,216	1,286,817,734

## Property Taxes/continued

County	Ag Real Valuation	Owner Occupied Valuation	Other Valuation	Total Valuation
Mellette	\$122,763,972	\$7,660,477	\$4,560,393	\$134,984,842
Miner	246,889,412	21,886,910	18,364,882	287,141,204
Minnehaha	574,496,214	4,669,788,852	3,606,347,907	9,150,632,973
Moody	318,438,615	102,674,703	46,465,535	467,578,853
Pennington	187,135,955	3,104,701,870	2,562,283,585	5,854,121,410
Perkins	205,097,911	23,689,763	14,155,387	242,943,061
Potter	239,224,030	33,463,674	28,985,583	301,673,287
Roberts	380,734,433	114,743,978	72,281,977	567,760,388
Sanborn	196,997,881	22,090,777	18,960,852	238,049,510
Shannon	20,083,355	2,164,305	2,235,323	24,482,983
Spink	383,073,642	64,854,977	62,587,482	510,516,101
Stanley	168,013,567	79,499,413	50,112,065	297,625,045
Sully	350,980,676	24,802,525	30,330,345	406,113,546
Todd	79,525,628	8,973,047	8,931,667	97,430,342
Tripp	359,928,403	75,818,645	41,563,561	477,310,609
Turner	366,610,630	135,207,335	53,847,424	555,665,389
Union	462,941,522	436,511,986	250,836,224	1,150,289,732
Walworth	137,994,973	66,655,185	54,004,804	258,654,962
Yankton	237,848,685	506,374,839	282,778,045	1,027,001,569
Ziebach	77,849,771	2,277,641	4,360,252	84,487,664
<b>STATE TOTALS</b>	<b>\$16,118,074,752</b>	<b>\$18,633,455,339</b>	<b>\$12,850,833,205</b>	<b>\$47,602,363,296</b>

The following chart shows the change in each classification of property, as well as the change in each classification's percentage of total valuation from 1997 to 2006.

### Taxable Valuations by Category: 1997-2006

For Taxes Payable in	Agricultural*	% of Total	Owner-Occupied	% of Total	Commercial	% of Total	Utilities	% of Total	TOTAL
1997	\$9,259,272,144	37.93	\$7,858,629,904	32.19	\$6,303,119,711	25.82	\$993,262,603	4.07	\$24,414,284,362
1998	9,700,112,744	37.40	9,031,445,601	34.82	6,222,551,169	23.99	982,426,625	3.79	25,936,536,139
1999	10,114,313,818	36.92	9,654,685,197	35.24	6,580,244,560	24.02	1,045,087,867	3.81	27,394,331,442
2000	10,759,050,990	36.65	10,400,962,518	35.43	7,072,312,159	24.09	1,125,213,808	3.83	29,357,539,475
2001	11,062,162,236	35.93	11,177,769,905	36.30	7,445,797,194	24.18	1,106,170,590	3.59	30,791,899,925
2002	11,549,861,305	35.68	11,934,525,973	36.87	7,753,707,599	23.95	1,134,307,137	3.50	32,372,402,014
2003	12,277,695,126	35.43	13,038,052,643	37.62	8,212,742,597	23.70	1,126,545,169	3.25	34,655,035,535
2004	13,085,504,017	35.07	14,269,607,712	38.25	8,811,374,289	23.62	1,141,657,751	3.06	37,308,143,769
2005	14,015,749,247	35.03	15,523,846,537	38.79	9,362,992,929	23.40	1,113,225,824	2.78	40,015,814,537
2006	15,097,290,060	34.80	16,954,988,100	39.08	10,238,689,250	23.60	1,093,714,459	2.52	43,384,681,869

\* Agricultural value includes AGY for Pay 1997 thru Pay 1998; includes NA-Z value for Pay 2000 to present

## Limits on Property Taxes

The South Dakota Legislature has enacted two independent systems that limit the growth of property taxes. The first is the state aid to education payments. These payments effectively replace property taxes for schools that would otherwise be paid by owners of agricultural and owner-occupied homes. The second system is the caps placed on the property taxes collected by all levels of local government (except schools). These caps limit the local governments' property tax collections to the amount they collected the previous year, plus small increases for inflation and new construction.

### State Aid to Education Payments

Agricultural and owner-occupied property owners benefit from the funding for education provided by the state. The state provides an extra \$120 million for K-12 education that would otherwise have to be paid by these property owners. The benefit is provided to the taxpayer through a tax rate reduction for the school general fund levy. The school general fund levy rates for taxes payable in 2007 are set statewide as follows:

Ag	\$3.03/\$1,000 of value
Owner-Occupied	\$4.76/\$1,000 of value
Other	\$10.19/\$1,000 of value

### Property Tax Caps

State law limits the amount of property taxes that local governments (counties, cities, townships, fire districts, etc.) can collect from their property owners. Market increases in the value of the property within the taxing district automatically decrease the property tax rates upon that property to ensure that the caps are not exceeded. Local governments are limited to the amount of property taxes they collected last year, plus an increase for inflation based upon the consumer price index (but not more than 3%) and for new construction within the taxing jurisdiction.

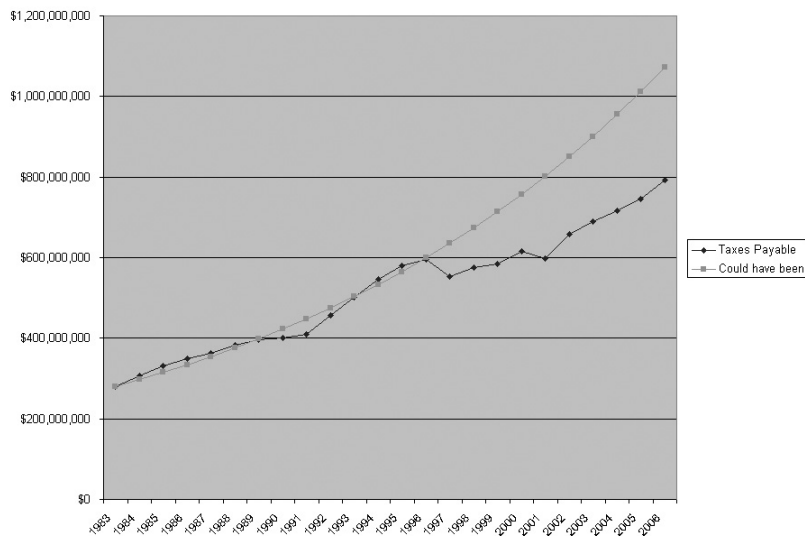
An example will illustrate how the property tax caps work. Assume that last year, the total property valuation within a city was \$100 million and the city collected \$300,000 from property taxes. To collect the \$300,000, the city assessed property within the city a tax of \$3.00/\$1,000 of assessed value. This year, the consumer price index is 2%, a new subdivision was created within the city with a total valuation of \$1 million, and a hot real estate market increased the value of the existing property within the city to \$109 million. The city can increase the \$300,000 it received from property taxes last year by 3% (2% for CPI and 1% for the new construction) for a total of \$309,000. To prevent the city from going over the cap, the tax rate applied to the \$110 million of property within the district (market value of \$109 million plus the new \$1 million subdivision), the tax rate is automatically lowered from last year's rate of \$3.00/\$1,000 of value to \$2.81/\$1,000 of value.

### Combined Effect of Tax Caps and State Aid Payments

Historically, property taxes have increased at a rate of about 6% per year since 1947. Property tax caps and state aid to education have significantly slowed this increase. If the historical rate of property tax growth had continued through the 1990's, current property owners would be paying over \$1 billion in property taxes. Instead, property owners are paying a little more than \$800 million of property taxes. The chart on the top of the next page shows the historical growth of property taxes and the actual growth of property taxes. These programs were implemented in 1997.

## Property Taxes/continued

### Historical Growth of Property Taxes v. Actual Growth



## Effective Property Tax Rates

The following table shows the effective tax rate for owner-occupied, agricultural, and commercial property in 25 South Dakota jurisdictions payable in 2006. The “Commercial” category includes residential property not occupied by the owner and utility property. The effective tax rate is the percentage of a property’s assessed (market) value that will be paid in taxes. For example, if the effective tax is 2%, and the assessed (market) value of the property is \$150,000, then the taxes will be about \$3,000 per year. The “Agricultural” effective tax rate is for the agricultural property in the township around the cities on the list.

County Located In	City/Township	Agricultural Effective Tax Rate	A Property Assessed at \$40,000 Pays	Owner-Occupied Effective Tax Rate	A Property Assessed at \$40,000 Pays	Other Non-Ag Effective Tax Rate	A Property Assessed at \$40,000 Pays
Brown	Aberdeen	1.25	501.16	1.73	693.26	2.24	895.22
Butte	Belle Fourche	1.16	462.40	1.91	765.68	2.42	966.96
Minnehaha	Brandon	1.02	408.00	1.47	589.56	1.98	790.50
Brookings	Brookings	1.37	549.08	1.65	661.98	2.22	888.42
Lincoln	Canton	0.98	391.00	1.81	725.22	2.31	924.80
Brule	Chamberlain	1.17	469.88	2.00	801.04	2.50	1,000.62
Minnehaha	Dell Rapids	1.03	413.10	1.56	625.26	2.07	826.20
Moody	Flandreau	1.29	516.46	2.20	880.26	2.71	1,082.90
Fall River	Hot Springs	1.40	559.98	2.17	868.02	2.67	1,068.96
Beadle	Huron	1.26	505.58	2.29	914.26	2.78	1,113.84
Lake	Madison	1.02	408.68	1.70	679.32	2.20	878.90
Grant	Milbank	1.23	492.66	1.70	679.32	2.20	878.90
Davison	Mitchell	1.33	530.06	1.83	733.04	2.36	942.48
Walworth	Mobridge	1.37	547.74	2.38	953.70	3.09	1,234.20
Hughes	Pierre	1.13	453.90	1.58	631.72	2.08	831.30
Pennington	Rapid City	1.21	484.16	1.51	602.48	2.02	807.16
Spink	Redfield	1.15	460.36	3.06	1,225.70	3.63	1,451.12
Minnehaha	Sioux Falls	1.02	406.98	1.44	574.94	1.97	788.80
Roberts	Sisseton	1.03	411.40	1.99	797.64	2.49	997.22
Meade	Sturgis	1.19	476.34	2.07	826.88	2.57	1,029.18
Clay	Vermillion	1.44	574.26	2.10	840.14	2.79	1,116.22
Codington	Watertown	1.05	419.90	1.40	561.00	1.90	760.92
Day	Webster	1.27	506.26	2.06	822.12	2.56	1,022.04
Tripp	Winner	1.10	439.28	1.73	693.26	2.24	894.54
Yankton	Yankton	1.18	470.56	1.55	618.80	2.05	818.72
<b>STATEWIDE EFFECTIVE TAX RATE</b>		<b>1.14</b>		<b>1.55</b>		<b>2.08</b>	