

Issue:

The main source of revenue for South Dakota state government is the four percent sales and use tax applied to goods and services. In the 2011 Fiscal Year, the sales and use tax generated over \$700 million for the state coffers, or about eighteen percent of the total state budget.

During the past legislative session, South Dakota's budget was cut by ten percent because ongoing expenses exceeded ongoing revenues by approximately \$127 million.

This has prompted the legislature to appoint an interim committee to study the state's current sales taxes and analyze what items should be exempt from sales and use tax.

Background:

South Dakota began collecting a two percent sales tax in 1935. Here is a brief history of the sales tax rates in South Dakota:

1935	2%	
1965	3%	
1969	4%	
May 1980	5%	* temporary increase to buy the railroad
July 1981	4%	
May 1987	5%	* temporary increase to establish the REDI fund
March 1998 - present	4%	

Every one-cent increase in the state sales tax generates approximately \$160 million for the state's General Fund. Municipalities may charge up to an additional two cents sales tax to help fund city governments. Property taxes, on the other hand, are assessed and spent at the local level, primarily by counties and local school districts.

The historical philosophy in South Dakota is that the state will collect a relatively low, relatively broad-based sales tax to help fund state government. In 1979, the legislature passed a law which mandated that all goods and services were to be taxed "unless specifically exempted" by the legislature.

Two years ago, at the request of legislators, the South Dakota Department of Revenue developed a list of items that are currently exempt, and estimated how much revenue could be generated if the state were to start taxing those items. Based on incomplete data, Department of Revenue staff guessed the total figure was more than \$527 million.

Topping the list were agricultural inputs and services, which were estimated to be about \$166 million. Among items included in the list and the amount of estimated tax revenue were seed at \$15 million, fertilizer at \$25 million, livestock sales at \$83 million, and livestock feed at \$15 million.

Farm Bureau has raised several objections to the list developed by the Department of Revenue, the first being that - while agricultural inputs such as seed, feed, and fertilizer are included on the list - other manufacturing inputs are omitted. For example, the list does not include any inputs used by Daktronics or Raven Industries or 3M or any other manufacturer in the state, because the finished products are taxed when sold to the final consumer.

We would suggest that inputs should be treated the same across industries, and that agricultural products are taxed when sold to the final consumer. For example, the feed for dairy cattle is ultimately taxed when the consumer buys milk at the grocery store. Seed, fertilizer, and pesticides that are used to produce corn or soybeans are ultimately taxed when the consumer buys meat or leather products.

Not taxing inputs is a matter of fundamental fairness to the consumer to prevent double - or triple or quadruple - taxation.

While some agricultural inputs may have been taxed at one time, many have not. Legislators need to understand that "removing a sales tax exemption" is the same as a tax increase. Governor Dugaard and many current legislators campaigned on a platform of no tax increases. As a candidate, Dennis Dugaard stated: "A recession is not the time to raise taxes. I will not raise taxes as governor. I will not support any new taxes or any increases in existing taxes. I would only consider a tax increase in response to an emergency, such as the temporary gas tax increase to pay for snow removal after the blizzards of 1997." (Source: Campaign website, "On The Issues" Nov 2, 2010)

We would suggest that if a tax increase is truly necessary, it needs to be shared by all and not targeted at agriculture.

In addition, it is inaccurate to infer that somehow farmers and ranchers are not shouldering their share of the tax burden. As consumers, farm and ranch families pay all the sales taxes on consumer goods and services that everyone else pays. In addition, farmers pay above-average property taxes, by paying not only on their homes but also on their farm and ranch land.

SDFB Policy:

Farm Bureau's goal is reduced spending by state and local governments. We support a concept of tax limitation. We would support an increase in the state sales tax rate to offset a corresponding reduction in real property taxes. We oppose a personal property tax. We support repeal of the contractors' excise tax.

Questions:

1) Present SD sales tax policy is based on identifying exemptions in state law. Would it be more clear to state that inputs into agricultural production, manufacturing, and industrial production are exempt and the sales tax is collected on the final product at the time of sale/consumption?