

Property Tax Relief: County Sales Tax

ISSUE: Does SDFB support Governor Rhoden's homeowner property tax relief program?

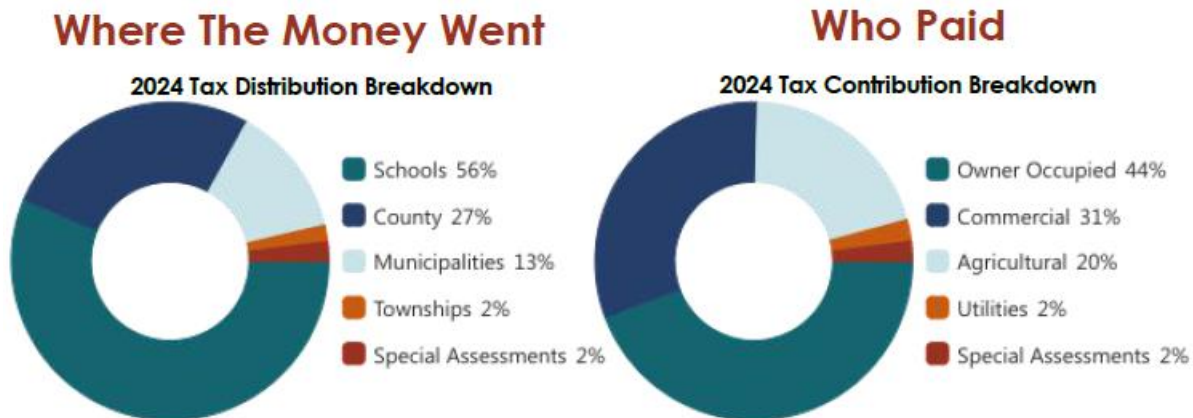
OVERVIEW: Property tax relief is a major issue facing South Dakotans. Similar to the property tax revolts in the mid-1990s, threats of ballot measures and major overhauls to the system are being discussed. In order to avoid a catastrophic measure such as replicating California's Prop 13, the Governor has announced a plan to reduce the property tax burden for homeowners. Governor Rhoden's homeowner tax relief proposal would be implemented in the following ways:

- Each county commission would have the option to directly reduce owner-occupied (homeowner) property taxes by replacing the revenue with a county sales tax of up to 0.5%;
- The funds raised from the optional sales tax would be placed into a Property Tax Reduction Fund at the county level;
- The use of the optional sales tax would be 100% dedicated towards directly lowering the county property taxes for all homeowners within the county;
- The property tax reduction would be achieved through a Homeowner Tax Credit, which would be paid out from the Property Tax Reduction Fund; and
- If owner-occupied property taxes in the county are fully offset by the Homeowner Tax Credit, any remaining funds in the Property Tax Reduction Fund must be used to lower property taxes among the other two classes of property: agriculture and other/commercial.
- The homeowner tax relief proposal would also be referable to a public vote in each county.

CONSIDERATIONS:

- There are only three ways to reduce property taxes:
 1. Cut the total need for property taxes (i.e. reduce local budgets).
 2. Shift the burden onto another class of property.
 3. Find other revenue sources to offset the need for property taxes.
- SDFB currently supports an increase in the state sales tax rate from 4.2% to 4.5%, provided the increased revenue flows into the state-aid-to-education formula for property tax relief. The sunset on the 4.2% is set to expire in 2027 bringing an automatic reversion to 4.5% without it necessarily going to property tax relief.

- As displayed in the chart below, county governments contribute 27% to the average South Dakotan's property tax bill. If a 0.5% county sales tax is enacted, ONLY the county portion of the tax bill would be reduced.



SDFB POLICY:

We Support:

- The assessed valuation of ag land that reflects the land's ability to produce under natural conditions and should be adjusted on an annual basis.
- Requiring actual use for property tax valuation.
- Legislation that will allow counties to equalize tax assessments and use the adjustment factors in statute to measure productivity in addition to the soil survey to calculate assessments. The practice of "neighborhooding" in specific geographic areas within a county should be substantially weighted and at least equal in influence with the soil survey.
- Increasing the \$10,000 homestead exemption to \$50,000 for ag structures.
- Taxation of Public lands as if that land were owned privately. The U.S. Government should pay the tax with no fee increase to the public land user.
- Church property that generates income should not receive preferential tax treatment.
- Municipalities that own income producing real property should be required to make property tax payments.
- Property owners who have been wrongfully assessed taxes should receive compensation from their county, including all expenses incurred through the appeal process.
- Township boards be given more time to have the tax assessments records in order to make their recommendations on valuations to the county assessor.
- A return to the law that assessors be reappointed every five years.
- Purchased inputs for agricultural production, manufacturing and industrial production shall be exempt from state and local sales tax. Sales tax should only be collected on the final product at the time of sale/consumption.
- The 2027 sunset on the state sales tax cuts. (Charles Mix 2023)

We Oppose:

- Any real estate tax reduction on land under easement.
- Any attempt to raise the tax rate per \$1000 of value on ag land to equal that on non-ag land for school purposes.
- A South Dakota income tax.
- A personal property tax.
- Sales tax on feed, seed, fertilizer, and ag chemicals. Sales tax should be removed from veterinary supplies. City sales tax should not be charged on machinery, repairs, building materials and veterinary supplies used by farmers.
- County sales tax except for the purpose of financing a county jail or for the incarceration costs of county inmates in a regional jail. (Walworth 2022)

DISCUSSION:

1. Does SDFB endorse the Governor's plan to allow a county sales tax to offset property taxes?
2. SDFB has policy supporting a county sales tax for purposes of financing a county jail or for incarceration costs. If SDFB supports a county sales tax for property tax relief, do we still support it for other uses?
3. SDFB currently opposes the repeal of the sunset on the state sales tax rate. In other words, SDFB supports the state sales tax rate going from 4.2% to 4.5% in 2027. If a county sales tax is enacted, does our position on the state sales tax rate change? For perspective, if a 0.5% county sales tax would pass, the maximum sales tax rate starting on July 1, 2026, would be 6.7% (4.2% state sales tax rate + 2% municipal sales tax rate + 0.5% county sales tax rate).