

## STATE SALES TAX CUT

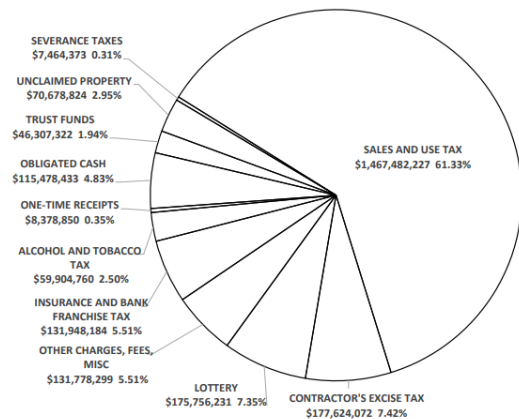
**ISSUE:** During the 2023 Legislative Session, House Bill 1137 was signed into law and reduced the state sales tax from 4.5% to 4.2%. The state sales tax cut is set to revert back to the 4.5% in 2027. There will be attempts in the upcoming Legislative Sessions to repeal the sunset clause and to make the state sales tax repeal permanent. HB 1137's prime sponsor and the governor have promised to deliver this effort.

### OVERVIEW:

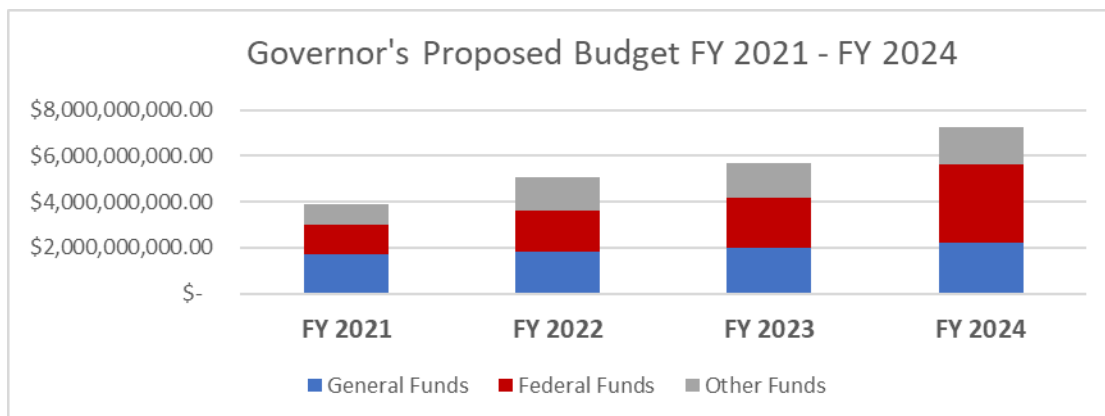
South Dakota is a sales tax driven state. The state sales tax accounts for over 60% of the state's general fund revenue and approximately 19% of the state's total budget. Within the past 10 years, SD's budget has also almost doubled for multiple reasons. It's clear that since the start of the COVID pandemic, South Dakota has experienced an extraordinary increase in state revenues. Some of this comes from economic growth and some from inflation, but much of it stems from an unprecedented amount of one-time federal funding.

Below is a breakdown of South Dakota's budget by General (61% of this fund comes from sales & use taxes), Federal, and Other Funds. The graph below shows that our state has experienced a huge, one-time federal cash influx that corresponds with unusually high sales tax collections.

### FY 2023 GENERAL FUND RECEIPTS



**General Fund Total: \$2,392,801,575**



## **CONSIDERATIONS:**

1. SDFB opposed the repeal of the grocery sales tax and remained neutral on the overall state sales tax reduction. This was determined by SDFB policy. One of SDFB's main priorities is to advocate for fiscally responsible means of taxation at the local and state levels. Our members have always made it our mission to support sound and responsible tax policies that keeps South Dakota a low tax state. SDFB has also always understood that a low, **broad-based** sales tax is how we avoid implementing an income tax.
2. In 2016, the Legislature, following the direction of the Blue Ribbon Task Force increased the sales tax from 4.0% to 4.5%. In order to secure enough votes, the Partridge amendment was added to the legislation. The amendment promised to repeal a portion of the 2016 half penny sales tax increase with the collection of online sales tax. The amendment, named for its sponsor, then-Rep. Jeff Partridge, called for reducing the sales-tax rate by one-tenth of 1% for every \$20 million of ongoing tax revenue paid by remote sellers. With the passage of HB 1137, the Partridge Amendment has been removed from state law; however, many believe that making the tax cut permanent fulfills the original promise found in the Partridge Amendment.
3. The Senate is supportive to keep the four-year sunset. It is their belief that a sunset allows the State to avoid a tight situation if the grocery sales tax ballot measure passes in 2024. Additionally, there is concern that South Dakota's economy will decline and revenues will fall if the nation goes into a recession.
4. Many agricultural inputs are exempt from sales tax. If the sales tax is made permanent and state revenues fall, some worry inputs could lose their exempt status.

## **POLICY**

### We support:

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.

### We oppose:

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.

Cities or school districts having extra sales tax for the support of schools.

Cities being allowed to put sales tax receipts in their general fund for property tax relief.

The repeal of the state food sales tax. (Beadle 2022)

## **DISCUSSION:**

1. Does SDFB feel it is good tax policy to include a four-year sunset on the state sales tax cut?

South Dakota State Budget Excerpt 2014-2024													
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024		
Total Actual Revenues	\$ 3,721,775,263.00	\$ 3,851,634,981.00	\$ 3,993,339,111.00	\$ 4,148,616,568.00	\$ 4,222,824,341.00	\$ 4,313,615,754.00	\$ 4,691,683,716.00	\$ 6,330,206,084.00	\$ 5,662,515,685.00				
Actual General	\$ 1,285,901,715.00	\$ 1,360,860,291.00	\$ 1,406,363,358.00	\$ 1,538,454,746.00	\$ 1,580,491,110.00	\$ 1,589,929,931.00	\$ 1,659,298,222.00	\$ 1,543,618,981.00	\$ 1,693,370,750.00				
Actual Federal	\$ 1,396,106,343.00	\$ 1,347,807,566.00	\$ 1,365,281,645.00	\$ 1,413,447,211.00	\$ 1,391,286,724.00	\$ 1,431,971,864.00	\$ 1,827,341,929.00	\$ 3,537,437,939.00	\$ 2,645,694,064.00				
Actual Other	\$ 1,039,767,205.00	\$ 1,144,967,124.00	\$ 1,221,694,108.00	\$ 1,196,714,611.00	\$ 1,251,046,507.00	\$ 1,291,713,959.00	\$ 1,205,043,565.00	\$ 1,249,149,164.00	\$ 1,332,450,871.00				
Total % of Revenue Change		3.49%	3.68%	3.89%	1.79%	2.15%	8.76%	34.92%	-10.55%				
Total Recommended Budget Address)				\$ 4,827,070,205.00	\$ 4,600,525,575.00	\$ 4,655,323,547.00	\$ 4,850,150,006.00	\$ 4,920,251,431.00	\$ 5,054,016,942.00	\$ 5,706,407,141.00	\$ 7,241,236,495.00		
Gov's General				\$ 1,489,294,495.00	\$ 1,614,490,787.00	\$ 1,615,672,243.00	\$ 1,687,812,959.00	\$ 1,715,326,842.00	\$ 1,794,787,344.00	\$ 1,967,186,696.00	\$ 2,190,378,155.00		
Gov's Federal				\$ 2,031,741,829.00	\$ 1,640,077,610.00	\$ 1,681,171,355.00	\$ 1,748,611,362.00	\$ 1,776,534,799.00	\$ 1,810,813,493.00	\$ 2,216,510,328.00	\$ 3,428,665,803.00		
Gov's Other				\$ 1,306,033,881.00	\$ 1,345,957,178.00	\$ 1,358,479,949.00	\$ 1,413,725,685.00	\$ 1,428,389,790.00	\$ 1,448,416,105.00	\$ 1,522,710,117.00	\$ 1,622,192,537.00		
Sales Tax Actual	\$ 823,401,593.00	\$ 836,587,108.00	\$ 860,905,705.00	\$ 951,233,081.00	\$ 988,823,603.00	\$ 1,025,401,209.00	\$ 1,072,830,649.00	\$ 1,209,432,432.00	\$ 1,356,844,793.00				
Total Legislative Adopted Sales Estimate	\$ 805,448,402.00	\$ 851,345,413.00	\$ 866,924,519.00	\$ 1,006,724,206.00	\$ 989,040,000.00	\$ 1,029,090,230.00	\$ 1,075,218,900.00	\$ 1,102,000,000.00	\$ 1,157,606,191.00	\$ 1,331,550,501.00	\$ 1,487,500,000.00		
Total % Actual Sales Tax Change		1.60%	2.91%	10.49%	3.95%	3.70%	4.63%	12.73%	12.19%				