

SALES TAX BILL OPTIONS

APPROACH TO CONSIDERING THE SALES TAX BILL

The HJ 35 Tax Study Committee voted to request a general sales tax bill for consideration at its August meeting. Staff prepared [HJ35-06](#) based on South Dakota's sales and use tax laws.

The bill provides for a 4% tax on most sales of tangible personal property, products transferred electronically, and services, and allows for a local option sales tax of up to 3%.

The following table provides an overview of the structure of the bill.

This document provides an overview of a general sales tax bill and some options the committee might consider including in the bill.

Bill Section	Overview
Sections 1 - 44	Provides for 4% sales tax on tangible goods, products provided electronically, and services
Sections 45 - 89	Provides for 4% use tax on tangible goods, products provided electronically, and services
Sections 90 - 102	Authority to enter into Streamlined Sales and Use Tax Agreement
Section 103	Out-of-state sellers required to collect tax
Sections 104 - 107	Marketplace providers required to collect sales tax
Sections 108 - 116	Requirements of non-collecting retailers
Sections 117 - 124	Local option sales tax

OPTIONS FOR COMMITTEE CONSIDERATION

If the committee advances a sales tax proposal, the committee may wish to revise other taxes and fees to offset the additional revenue from a sales tax.

The following table includes options for the committee to consider including as part of a sales tax proposal. The options were provided to staff by Sen. Hoven, who discussed the sales tax proposal with members of the HJ 35 Tax Study Committee and others.

Each option includes an estimate of the revenue impact when available. Staff also provided a spreadsheet that may be downloaded from the [committee website](#) and used to calculate the total revenue impact of chosen options.

Option	Type	Details	Estimated State Revenue Impact
A	Cities/Counties	Provide additional revenue to cities and counties through the entitlement share <ul style="list-style-type: none"> If the goal is to reduce property taxes, may wish to require some reduction in property taxes, perhaps by amending calculation in 15-10-420. 	Specify an amount and an allocation method
B	Income tax	Double income ranges in rate schedule and add rate schedules for head of household and married filing jointly that are one-and-a-half times and twice the doubled income ranges, respectively	-\$265 million
C	Income tax	Increase Earned Income Tax Credit. At current 3% of federal credit, tax year 2020 amounts are: <ul style="list-style-type: none"> \$199.80 with three or more qualifying children \$177.60 with two qualifying children \$107.52 with one qualifying child \$16.14 with no qualifying children 	-\$1.76 million per 1% of federal credit
D	Income tax	Provide for <u>circuit breaker tax credit</u>	-\$22 million to -\$49 million (scenarios considered by committee)
E	Income tax	Sales tax fairness refundable credit. Base credit of: <ul style="list-style-type: none"> \$125 for singles \$175 for MFJ plus \$25 for one child and \$50 for more than one child \$175 for HOH plus \$25 for two children and \$50 for more than two children Credit is reduced by: <ul style="list-style-type: none"> Single: \$10 for every \$500 over \$20,000 HOH: \$15 for every \$750 over \$30,000 MFJ: \$20 for every \$1,000 over \$40,000 	No estimate available *If option to add MFJ and HOH rate schedules is not chosen, credit needs to be reworked.
F	Income tax	Eliminate deduction for tip income	+\$82 million

Option	Type	Details	Estimated State Revenue Impact
G	Infrastructure	Transfer general fund revenue to Capital developments long-range building program account (established in HB 553 2019)	-\$50 million
H	Property tax	Repeal the tax on class eight business property. Backfill cities/counties for lost tax base.	-\$99.2 million
I	Property tax	Increase the exemption on class eight business property to \$500,000. Backfill cities/counties for lost tax base.	-\$11.7 million
J	Resort tax	Repeal resort tax authority	No state revenue impact
K	Sales tax	Add motor vehicles, motorboats, construction services, and agricultural equipment to sales tax base.	+\$246,347,635
L	Sales tax	Reduce sales tax on lodging to 1%	-\$27.3 million
M	Schools	Eliminate BASE property taxes so the state fully funds all districts to the BASE budget	-\$180 million
N	Schools	Increase state transportation reimbursement rates to lower school district property taxes (countywide transportation taxes remain unchanged)	-\$40 million
O	Schools	Increase state funding for school retirement to lower countywide school property taxes	-\$60 million
P	Schools	Increase state funding for debt service and fully fund program, lowering school district debt service levies	-\$40 million
Q	Schools	Reduce state equalization mills from 40 to 10	-\$94.8 million
R	Schools	Fund pre-kindergarten	-\$50 million
S	Schools	Fund 6th graders at middle school ANB	-\$15 million
T	Schools	Special education increases being considered by interim committees	-\$5 million to -\$8 million
U	Schools	Promote and enhance career and technical education	-\$5 million

Option	Type	Details	Estimated State Revenue Impact
V	Vehicles	Repeal vehicle registration fees, highway patrol salary fee, Motor Vehicle Division administration fee. <u>(More information.)</u> Transfer general fund revenue to state special revenue accounts that receive these fees.	Total: -\$121.3 million Vehicle registration: -\$106 million HP fee: -\$10.1 million MVD fee: -\$5.2 million
W	Vehicles	Repeal local option vehicle tax or fee. Backfill lost local revenue.	-\$58.9 million