Property Tax Snapshot

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SD Dept. of Revenue

What is DOR's Role in the Property Tax System?

- Review all real property transfers to gauge performance of Director of Equalization Office.
- Centrally assess certain industries (public utilities, railroads, etc.)
- Certify the aggregate assessed value of each county on an annual basis.
- Certify the value of all tax increment financing districts.
- Review and certify all property tax levies to ensure compliance with state law.
- Provide publications, forms, and guidance on property tax relief programs.
- Administer the "in lieu of" property taxes (wind farms, REAs, telephone).

What is the Property Tax?

- The property tax is an *ad valorem* tax on all property that has been deemed taxable by the South Dakota Legislature. *Ad valorem* refers to a tax imposed on the value of something (as opposed to quantity or some other measure). The property tax is the primary source of revenue for local governments. The State does not collect or spend any property tax revenue.

- SDCL 10-4-1. All real property in this state and the property of corporations existing or hereafter created, and the property of all banks or banking companies existing or hereafter created, except such as is hereinafter expressly excepted, is subject to taxation; and such property, or the value thereof, shall be entered in the list of taxable property for that purpose, in the manner prescribed in chapter 10-6.

- SD Constitution, Art. 11, § 2. To the end that the burden of taxation may be equitable upon all property, and in order that no property which is made subject to taxation shall escape, the Legislature is empowered to divide all property including moneys and credits as well as physical property into classes and to determine what class or classes of property shall be subject to taxation and what property, if any, shall not be subject to taxation. Taxes shall be uniform on all property of the same class, and shall be levied and collected for public purposes only. Taxes may be imposed upon any and all property including privileges, franchises and licenses to do business in the state. Gross earnings and net incomes may be considered in taxing any and all property, and the valuation of property for taxation purposes shall never exceed the actual value thereof. The Legislature is empowered to impose taxes upon incomes and occupations, and taxes upon incomes may be graduated and progressive and reasonable exemptions may be provided.

What is the Property Tax?

- Property taxes have been the primary funding source for local governments since statehood. For a period of time the property tax was also the major source of revenue for the state.

- Property taxes have been a target for reform for decades. In fact, SB 36 in 1935, which enacted the sales tax and income tax, was commonly referred to as the "Property Relief Act."

- In 1980, 1988, 1990, 1994, and 2006, ballot questions and measures regarding property taxation were submitted to the voters. All were defeated.

- SDCL ch. 10-6 (Annual Assessment of Property) has been amended 30 out of the last 34 years.

South Dakota Department of Revenue

History of Property Taxes in South Dakota: A Brief Timeline of Events

- Pre-1977: Counties were to assess at market value, but in practice assessed at various levels depending on the type of property.

- 1977: Legislation was passed to require assessment at market value, but counties were given the authority to set taxable percentages (not to exceed 60% of assessed value). It was common for a much lower taxable value to be assigned to agricultural land.

- 1989: Major rewrite of the property tax laws through SB 12 and SB 15. Some of the changes included:
  - Removed the counties ability to set taxable percentages
  - Adjusted statutory levy limits
  - Established minimum assessment standards, such as all property must be assessed at 85% of its market value and coefficient of dispersion (COD) of less than 30.
  - Also, Governor Mickelson brought property tax freeze legislation that froze individual property tax bills for 2 years (pay '90 and pay '91). The legislation also required a 2-year study of the property tax system to find a "fix."

- 1992: The tax freeze expired without a "fix" for the property tax system. Property values were raised to at least 85% of market and state monies were withheld from counties that did not achieve this statutory requirement or failed to have a COD of less than 30.

- 1994: Initiated Measure 1 on the general election ballot. This measure would have frozen assessments at January 1, 1995 levels and only allowed increases up to 1.25% annually if property improved or transferred ownership. Failed by a narrow margin (3,387 votes).

- 1995: Governor Janklow's Property Tax Reduction Act and revised State aid to education formula
  - Created "owner-occupied" classification which, along with agricultural property, received a 30% tax reduction phased in over pay '97, pay '99, and pay '01 taxes.

- 2008: HB 1005 passed, creating the Agricultural Productivity Methodology for assessing agricultural land.

Step 1 –
Establish the Assessed Value of Property
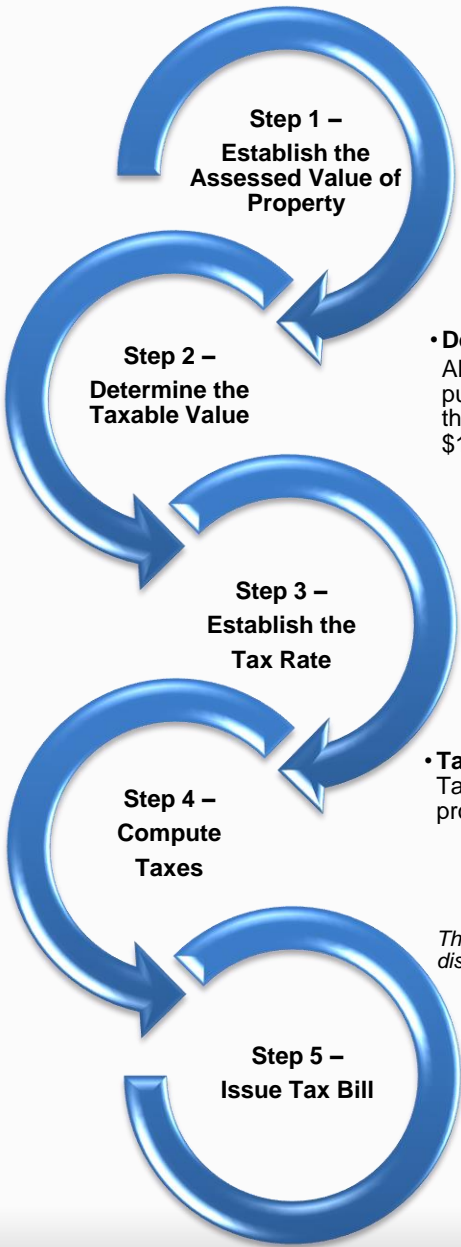
- **The full and true (assessed) value of all property in the state is determined as of the legal assessment date which is November 1 prior to the assessment year (November 1, 2017 for the 2018 assessment year, taxes payable in 2019).**
  Each Director of Equalization in the 66 counties in the State is to assess all real property within the county at the full and true value. Assessment notices are sent to the property owner on or before March 1 of each year.

Step 2 –
Determine the Taxable Value

- **Determine the taxable value of the property.**
  All property is to be assessed at full and true value. Then the property is equalized to 85% for property tax purposes. If the county is at 100% of full and true value, then the equalization factor (the number to get to the 85% taxable value) would be 0.85. (example: full and true value of $120,000 x 85% = taxable value of $102,000)

Step 3 –
Establish the Tax Rate

- **Determine the tax levy for all taxing jurisdictions which can tax the property.**
  Tax levies for each taxing jurisdiction are determined by dividing the tax levy request by the total taxable value within the taxing jurisdiction and multiplying the result by 1,000. For example, if the taxable value within a city is $10,000,000 and the city has a tax levy request of $100,000, the tax levy is computed as follows:

  Tax levy – (tax levy requested divided by taxable value) X 1,000
  Tax levy – ($100,000/$10,000,000) X 1,000 = $10 per thousand

Step 4 –
Compute Taxes

- **Taxes are computed for individual properties.**
  Taxes are computed by multiplying the taxable value times the tax levy. For example, if the person has property with taxable value of $102,000, the property taxes for city purposes would be computed as follows:

  Taxes = taxable value (Tax levy divided by 1,000)
  Taxes = $102,000 x ($10/1,000) = $1,020

This same step is done for this property for each taxing district that can tax the property, such as county, city, school, fire district, etc. The sum would be the total property taxes due on the property.

Step 5 –
Issue Tax Bill

- **Tax bills are sent to property owner.**
  Taxes are due and payable January 1 of the year following assessment (2018 assessment, taxes are due and payable January 1, 2019). They do not become delinquent if one-half of the taxes are paid before May 1 and the remaining half paid before November 1. All property taxes are paid to the county treasurer in the county where the property is located.

Property Tax Limitation System

- South Dakota has two independent systems that limit the growth of property taxes.
  - **State aid to education payments** replace property taxes for schools that would otherwise be paid by owners of agricultural property and owner-occupied houses.
  - **Property tax caps** limit the amount of property taxes that local governments can collect from property owners.

Property Tax Limitation System

- Property tax caps
  - Local governments are limited to the amount of property taxes they collected the prior year, PLUS an increase for inflation based upon the consumer price index or 3%, whichever is less, and growth (new construction within the taxing jurisdiction).
    - Example:
      - Municipality has a total property valuation of $100 million and collected $300,000 in property taxes by imposing a 3 mill tax levy last year. Current year CPI is 2% and residential development added $1 million of new value (growth). Values of existing properties increased to $109 million.
      - Municipality can increase its prior year tax request by 3% (2% for CPI + 1% for growth), or $9,000, for a total current year request of $309,000.
      - To prevent going over the cap, the tax rate applied to the $110 million of property in the municipality ($109 million of existing value + $1 million of new growth) would be automatically lowered from 3 mills to 2.81 mills ($309,000/110,000,000) x 1,000 = 2.81 per thousand)

Opt Outs

- If a taxing district cannot operate on the revenues generated by the maximum allowed by state law, the district may impose an excess tax levy, or "opt out." SDCL 10-12-43.

- School districts are only allowed to opt out for the general fund levy.

- An opt out requires a two-thirds vote of the governing body on or before July 15 prior to the year the taxes are payable.

- Opt outs may be referred to a vote upon a petition signed by at least five percent of the registered voters in the taxing district and filed within twenty days of publication of the opt out resolution. The Election must be held on or before October 1.

Valuation by
Class as % of Total
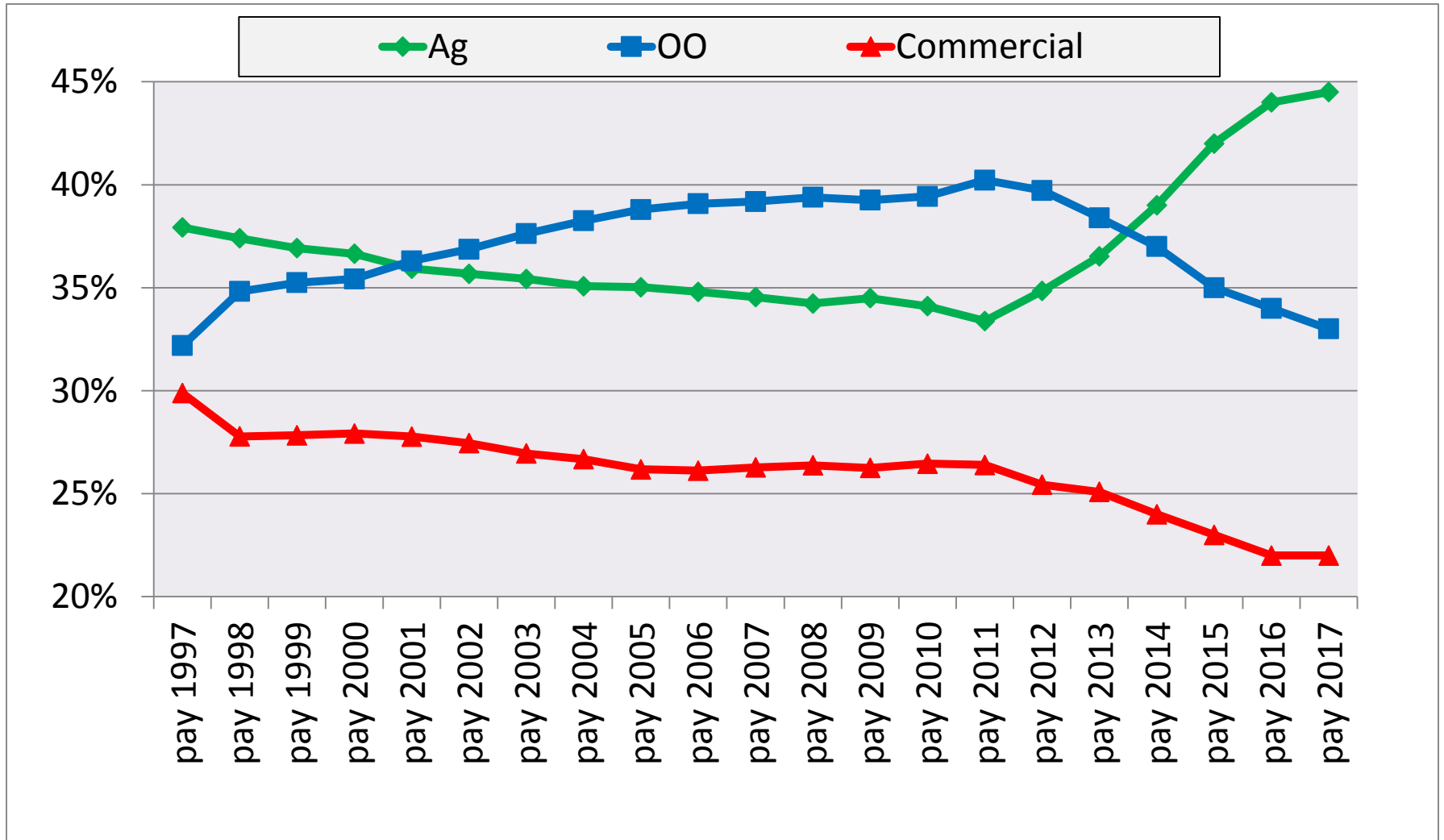
Who Pays? Property Taxes Paid by Class as % of Total
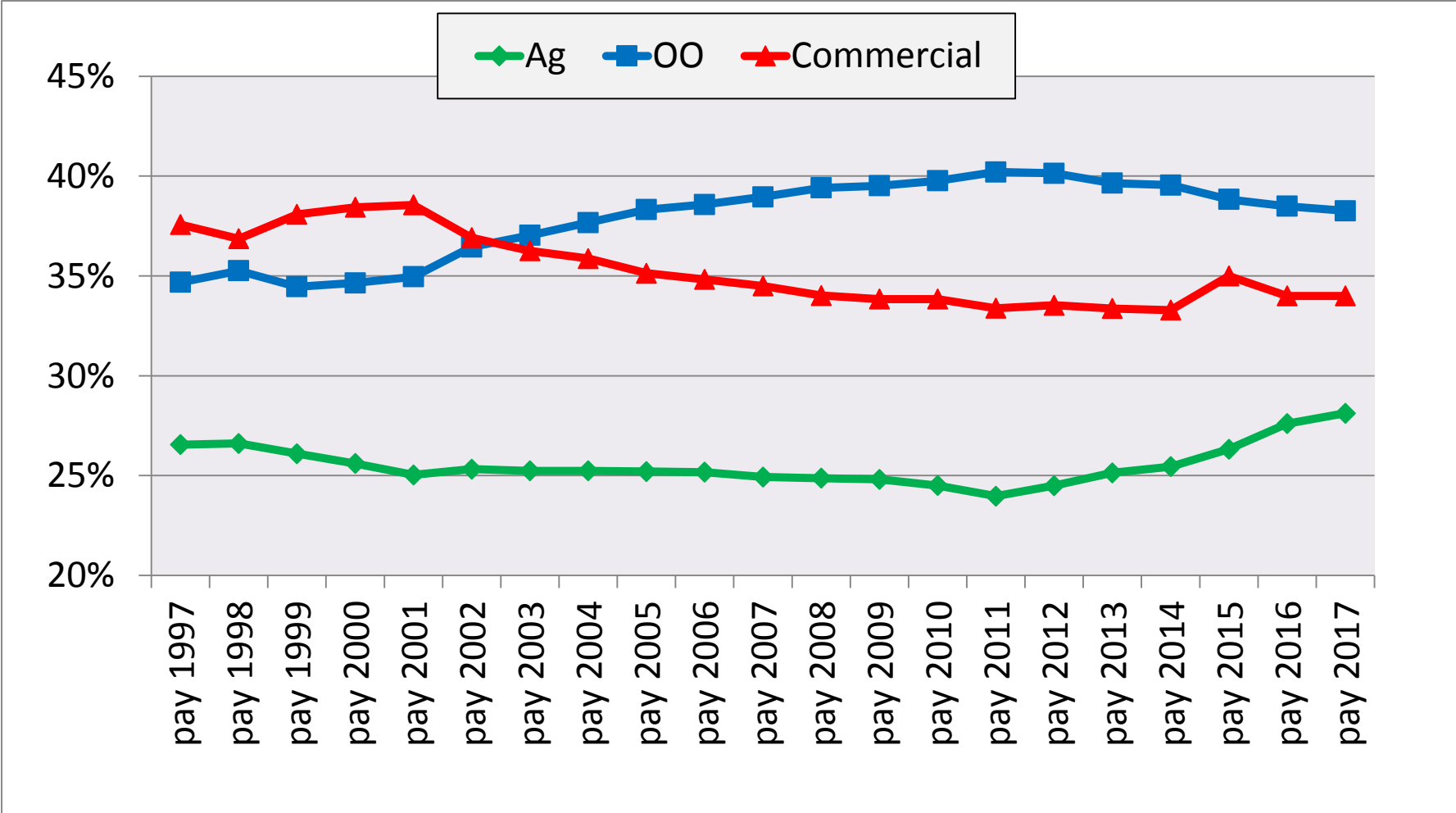
Questions?

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